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ABSTRACT

A general discussion covering both the common problems and features of the full range of the mass media industries, and some economic notions central to understanding them, opens this report, followed by introductory essays for individual industries and consideration of public policy issues. The basic economic considerations common to the field which are discussed include media products, monopolistic competition, and advertising markets. Brief discussions and summaries presented for newspapers, broadcast television, book publishing, and other media (cable television, magazines, and radio) touch on their technology, development, and economic structure; up-to-date statistics are provided. Characterizations of markets developed to illustrate some of the problems and possible solutions to defining media markets focus on the umbrella structure of newspaper competition in the San Francisco Bay Area and the New York City media market. The identification and discussion of perceived policy problems found in one-newspaper cities, group and chain ownership across media markets, cross-media ownership in a given market, and product distribution conclude the report. (Author/CMV)

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# ECONOMIC ISSUES IN MASS COMMUNICATION INDUSTRIES

by

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with Michael Robinson and Steven Wildman*

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This paper has been prepared to put in one place and in fairly concise form a general discussion of the full range of mass media industries, their common features, and their common problems. It has not be prepared for an audience of professional economists; rather we have sought to convey the central economic notions needed to understand mass media industries in a way that is sensible to the general student of such industries. We are particularly interested in speaking to both public and private policy makers.

As academic scholars located in California, we recognize that we are somewhat distant from the anvils on which private and, particularly, public policy are formed. This is both an advantage and a disadvantage. It is advantageous, we believe, because it makes possible our approach to the central economic questions of media industries with a considerable amount of detachment and, we believe, objectivity. It has been our observation over the years that media policy discussions carried out near the seats of power generate more heat than light.

On the other hand, the disadvantage of our location in space and academe is that we have difficulty keeping track of exactly what issue or issues are currently receiving the focused glare of policy attention; the day-to-day shifting of issues to the forefront or to the background and their continual redefinition are matters that do not take place in our immediate attention. Consequently, at least some of what we have to say may sound as though it does not address directly the questions now before policy forums. That appearance is, we would

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argue, at least partially an illusion; for the basic economic sources of policy problems in media industries do not change but, rather, only their current form and arena.

This paper is organized as follows: First we lay down some basic economic considerations common to all media industries. The defining characteristic of a mass medium, its broadcast character, is a touch stone that provides the central idea needed both to understand media economics and to distinguish the difference between media and non-media industries. The essential monopolistically competitive nature of media markets is developed as is the role of advertising.

Introductory essays for each media industry then follow. Our intention is not to provide an exhaustive or comprehensive examination of each, but simply to introduce readers to their main institutional and economic features. In each case, we have tried to supply up-to-date statistical information.

Since media products are necessarily differentiated and distinct from one another as viewed by audiences and advertisers, media markets do not fit easily into traditional economic or policy analyses. To illustrate some of the problems, and possible solutions, we develop characterizations of several media markets.

Finally, in the last section, we raise and discuss a set of public policy problems as we see them. Our viewpoint in approaching policy questions is that of professional economists, and we make no apology for that viewpoint. However, we also recognize that policy

problems nearly always require more than purely economic analyses and, further, that economic analyses proceeding from different presumptions do not always lead to the same conclusions. Consequently, we put forward our views with a certain amount of modesty and with the hope that they will serve to fructify subsequent discussion.

## I. ECONOMIC CHARACTERISTICS OF MASS MEDIA

Communication media industries, particularly the so-called mass media industries, have economic characteristics that distinguish them from most other industries. The defining characteristic of a mass medium, its broadcast character, is a touch stone that provides the central idea needed both to understand media economics and to distinguish the differences between media and non-media industries. This section also develops the essential monopolistically competitive nature of all mass media markets. In a final subsection, the common and essential role of advertising in most mass media industries is developed.

### A. MEDIA PRODUCTS

Communication industries can be usefully divided into two groups, narrowcast and broadcast industries. Narrowcast media, the telephone network for instance, are characterized by point-to-point message transmission. In contrast, broadcast industries are characterized by point-to-many message transmissions; over-the-air television is the best example of a broadcast media.

What have been defined as broadcast media here are usually referred to as mass media. We don't object to that name, but broadcast is a more accurate descriptive word. As we will see, it highlights an important economic characteristic of the so-called mass media industries.

Before dismissing narrowcast media altogether, we should at least identify the key narrowcast industries and their principal economic policy problem.

The key narrow cast industries have been telephones, telegraph, and mail--AT&T, Western Union, and the Postal Service. Each has been either a regulated monopoly or a government monopoly. Each is being hard pressed by the development of new technologies and potentially competitive services. For instance, United Parcel Service and Federal Express are diverting high value traffic from the Postal Service, probably increasing its already substantial deficit. Similarly, MCI and Southern Pacific have succeeded in entering the telephone industry as so-called specialized carriers, and IBM has formed a consortium of firms to provide a satellite interconnected business oriented communication network. The phrase "have been" appearing in the first sentence of this paragraph was used deliberately; technology threatens to invent new narrowcast media, computer communication networks, for instance.

There is a suspicion in at least some quarters, however, that this new competitive activity is being induced because of regulation rather than in spite of it. That is, the processes of political regulation or, in the case of the Postal Service, of political management, may have inhibited the existing supplier's ability and incentive to develop and provide new services as technology changed and as new opportunities have opened up.

It is not likely that we are ready to deregulate industries as important as telephones or the postal service, so the key policy

problem being faced in these industries is how to accomodate our rather inflexible regulatory and public management institutions to the realities of a rapidly changing world where changes are largely driven by evolving technology. As is well known, these are policy questions that, in one form or another, are before the Federal Communications Commission, the Courts, and the Congress. Further, they are questions that will likely be there for some time to come.

This problem, the problem of finding ways of accomodating an essentially political regulatory process based on a rather static concept of economic reality to a dynamic technological and economic reality, is also common to some of the broadcast media.

The defining characteristic of a broadcast medium is a single source producing a message or a set of messages that is received in common by many individuals. The largest broadcast media industries are daily newspapers and over-the-air television. In the case of newspapers, a group of messages are selected by an editor and bundled together into the package we call a newspaper, and then the package is reproduced and distributed to a mass audience. In the case of television, the packaging is sequential since only one program can be transmitted at a time by a given source, but the principle is the same.

Although newspapers and TV are the main broadcast media, there are others that need to be included. Radio, obviously, and magazines, weekly newspapers, and specialty publications such as the business press are all broadcast media in our definition. In recent years, cable TV

has begun to take on some of the characteristics of an independent rather than a retransmission medium.

Each of the media mentioned so far has carried a mix of advertising and reader interest messages. However, there are broadcast media that specialize in either advertiser or in reader interest messages alone. For instance, billboards are an important advertising mass medium. Direct mail advertising, the mass mailing that fill up our mail boxes, is harder to classify as a medium since its mailings are often directed to individuals in the manner of c
Because of the importance of direct mail advertising and because of its impact on other broadcast media we prefer to classify the medium as broadcast.

Direct mail advertising is not a minor business. About half as many advertising dollars flow into direct mail as into <u>all</u> newspapers, and direct mail advertising has a dollar volume that is 75% that of the entire TV industry.

On the side of specialization in reader or viewer interest messages having little or no advertising content are, principally, books and movies. However, making use of the defining characteristic of single source but multiple recipients, it is easy to classify phonograph records and tapes as mass media as well. A newcomer to this type of medium is the newly created video cassette industry.

The list of broadcast media is a long and diverse one. It is even more diverse than the above discussion indicates: For instance,

there are important paperback, hard cover, and educational publication sub-categories within books and each of these sub-categories has many interesting divisions. Similar subdivisions could be identified in each of the media.

Given this diversity, is it possible that these industries have anything at all in common with one another other than that they can all be defined as broadcast media? The answer is a qualified yes, and we now turn to some of those characteristics. In doing so, however, we would like the reader to keep in mind that traditionally and for good reasons newspapers and television are at the center of public concern about mass media industries. Our comments are weighted accordingly.

A first characteristic that sets mass media industries off from more conventional industries is the fact that nearly all of them involve questions of freedom of expression. As a result, most of the mass media industries are vested with a social importance quite beyond their simple economic value. We don't intend to dwell on this characteristic here because it is widely recognized and much treated by scholars, critics, commentators, politicians, the courts, and the media themselves. In contrast, the economic characteristics of mass media are much less well understood.

There is one aspect of this extra-economic importance of the media that deserves comment before we move on, however. The fact that the mass media are inextricably bound up in the political process means that reform or change through legislative or administrative process is very

difficult indeed. For example, it has by now become axiomatic that you don't fiddle TV or cable television regulation in an election year. Lest the reader think that this is only a public policy problem, the president of a chain of small papers once told one of us that an important problem in managing the chain was keeping his local publishers from getting swelled heads from being courted by local politicians.

It should be recognized, however, that these problems in policy formation are only byproducts of a broader and deeper social and political importance that the mass media have above and beyond their purely economic importance.

A second characteristic in common among the mass media is that conventional measures of economic importance almost always understate their real economic importance. For instance, TV will probably have revenues of less than $10 billion this year, considerably less than 1% of GNP. In fact, the revenues of the entire TV industry will be only a small fraction of those of General Motors. That comparison is deceptive, however, because viewer borne expenses are not counted. Here we have in mind not only the cost of the receiver that the viewer must buy, but also the value of time spent watching television.

It's true that most consumer goods require a fair amount of consumer time in their use, but the mass media are in a wholly different category from most goods. For instance, a little rough calculation shows that a typical car owner purchases about $6 worth of automotive services for every hour of his or her own time spent using the car to

produce transportation. As another example, it is not uncommon for family vacations to cost $3 or $4 per hour per waking hour per person.

In contrast, the total direct and indirect cost of an hour's TV watching is as follows: it costs somewhere between 2 and 4 cents per hour for programming and transmission cost. It costs about another 2 or 3 cents per hour for the TV set that you own. In other words, over-the-air television costs about 4 to 8 cents per hour of viewer time. Another, and less flattering, way of putting this is that TV advertisers not only acquire an hour of viewer time at a cost of pennies, they can induce the viewer to spend nearly as much to buy a receiver!

Television is by far the most dramatic example of this characteristic. The total cost of newspapers is probably about fifty cents per hour of reader time, for paper back books the figure is probably close to a dollar per hour, and for movies, slightly more.

The point being made here is really a very simple one; the conventional measures of economic importance somewhat understate the real economic value of mass media products in comparison with other, more conventional, products. This is because mass media products typically require more investment of consumer's time than most other products do. However, lest we take this point too seriously, it is important to note that the criterion used here would make the mattress industry the most important of all!

From the standpoint of the central purpose of this paper, the two characteristics of mass media industries discussed above are not particularly important. We want to turn now to a third and crucially

important economic characteristic of mass media products. The technical word used by economists to describe this characteristic is "public good." The technical economic meaning of this word is quite different from its non-technical connotations, however.

Over-the-air television provides the clearest example of what is meant by the "public good" phenomenon. To use a simple example, suppose a TV station has created a program and broadcast it. In other words, it has created an economic commodity. The cost of creation and broadcast is technically independent of the number of the individuals who consume that commodity, however. That is, once the commodity has been created, the incremental cost of adding one more viewer is zero from the standpoint of the TV station. When this condition is satisfied, the commodity in question is said to be a "pure public good."

It is perfectly true that a higher cost program may attract more viewers so that, in that sense, the cost per added viewer is not zero. That is not quite the same thing, though. The technical public good condition is a feasibility condition. It says that once the commodity has been created, it can be consumed or used by an additional person at no additional cost to the producer or, for that matter, to the economy as a whole. This feasibility condition characteristic of all broadcast media is in contrast to nearly all other economic commodities where adding a marginal consumer to the commodity involves real economic cost. Examples of automobiles, steaks, or housing come easily to mind.

The fact that mass media products have important public good characteristics means that their markets get organized and institutionalized in ways that are often quite different from more conventional goods. We will come back to this important point below, but first it will be useful to talk about the public good characteristics of media other than television.

In newspapers, there is a phenomenon called "first copy" costs. First copy costs are the costs of creating and editing the news and feature content of the paper, assembling its advertising copy, setting type, and creating the plates needed for printing. These are all costs that must be incurred before even one copy of the paper can be made. However, once they are incurred, they do not need to be repeated if more copies are produced. Copies of the newspaper, once produced, can be thought of as private goods since it is difficult for more than one person, or at least one household, to make use of the printed pages. In other words, the content of a newspaper, the creation of which induces first copy costs, has important public good characteristics, even though the method of reproduction, the printed page, need not.

This distinction between content and mode of reproduction or transmission is a useful one. In the case of television, both the program content and its method of transmission are public goods. In the case of newspapers, the content is a public good, but it is embodied on the printed page, a physical product that does not have important public good characteristics. This is generally true of all of the print media.

The content of a book or magazine is a public good, but that public good is combined with a private good consisting of physical pages. The private good is used to distribute and market the public good product.

Radio is like TV, both the content and the transmission are public goods. Movies are also an obvious public good. The mode of transmission used in this case, movie theatres, is what might be called a "congested public good." Consequently, the content of movies can be thought of as a pure public good, but the means of transmission is a public good sufficiently congested to be, essentially, a private good.

In phonograph and video recording processes, the master tape contains the public good, which is that embodied in private good as discs or tapes for marketing and distribution.

The point that is made in the above discussion is that the mass media are in the business of communicating something, be it information, entertainment, or whatever. That something being communicated has to be created, and that something is what is known in economics as a public good. Indeed, if one thinks about it for a moment, one sees that the reason these industries are mass communication industries, is precisely because their products have essential public good characteristics. Perhaps now it is clear why we have insisted on calling these industries broadcast industries. The concept of broadcast--a single source with many recipients--is an important defining characteristic

because it focuses attention on the public good aspect of mass media commodities.

At this point, the reader is entitled to ask what difference does it make? The main difference that it makes is that media markets get organized and institutionalized differently from more conventional markets. Such markets are, in the jargon of economics, monopolistically competitive. The elucidation of what is meant by this is the subject of the next sub-section. Before turning to that topic, however, we would like to provide an example of how failure to recognize the essential public good nature of the media product led to bad public policy. We would also like to show how advertising succeeds in converting what is otherwise a public good into private goods.

Turning to the first question, the "localism" policy of the Federal Communication Commission came a cropper precisely because of the failure of the Commission to recognize adequately the essential public good nature of over-the-air television. In the late 1940s and during the 1950s, the FCC had the task of awarding licenses to broadcast TV programming. Obviously there are many kinds of tradeoffs to be considered in deciding how to set priorities for such a process, and the FCC spent a long time thinking about the problem. It finally decided that an important, if not the most important, criterion should be "localism." That is, the available UHF and VHF spectrum should be allocated to use, and licenses to broadcast issued, in such a way as to maximize the number of communities that had local TV outlets. This meant that broadcast power should be

be limited to permit more local stations, and that urban centers should have proportionally fewer licenses than rural areas.

The egalitarian intent of the policy is clear. The FCC wanted to spread the benefits of the new medium as widely as possible across the country, putting the source of programming as close to the grass roots as possible.

A cynic might note that this also seems like a policy to put licenses in as many congressional districts as possible. One might also note that bringing licenses as close to the grass roots as possible in the rural areas means that considerable distance gets opened up between license holders and the sidewalks in the cities.

Even ignoring such carping, though, it seems apparent that the FCC's policy has not been successful on its own terms. The amount of viewing of local origination programming in any TV market in the country seems quite minimal. Further, to the extent that there is local origination, it is generally more important in the larger markets than in the smaller markets favored by the policy of localism. Why should this be the case?

It is precisely because of the public good character of the TV product. Aside from transmission costs, a large audience can be served by a given program just as cheaply as a small audience; the program content is a pure public good. Further, if you are going to broadcast the program to the whole country anyway, it is cheaper to do so simultaneously in large sections of the country at a time. It

would be even cheaper if we could figure out some way to put the whole country in a single time zone! Consequently, the cheapest and most effective way to organize the production of over-the-air television is through networks. As a result, virtually all of the programming on TV that is viewed by significantly large audiences has its source in one of just three networks. Local origination becomes more like a relay station than a local voice.

In fact, a case can be made that the FCC's policy of localism had the effect of reducing the number of independent voices rather than increasing them. The reasoning goes as follows: The reason we have only three networks is because there are enough three license cities to permit three networks each to reach nearly all of the U. S. population. Thus, the one and two license cities are largely (but not entirely) redundant. Had the FCC allowed more power for larger transmission areas, and had it concentrated more licenses in fewer cities, the same statement could have been made about four, five, or possibly even six networks instead of three. This would have been a concept of "regional" rather than "local" origination.

Therefore, the FCC's failure to perceive the essential public good nature of the TV commodity led it, in the 1940s and 50s, to follow what has turned out in retrospect to be a misguided policy of localism. That policy of localism, in turn, has limited the number of viable networks to three. This, in turn, has created considerable economic wealth and political power in the limited number of networks and their affiliates.

Needless to say, those interests are stalwart defenders of the existing state of affairs.

The above analysis has been carried out with the benefit of 20-20 hindsight, of course. At the time that decisions were being made, vision was not so clear; it is at least arguable that the FCC made the best possible set of decisions in its allocation processes given the state of knowledge and congressional directives at that time. It is still true, however, that the essential public good nature of the television medium mattered. It mattered a great deal, and that is the point of this discussion.

Another important attribute of public good products is that they can be hard to sell. Since it costs little or nothing to serve the marginal consumer, neglecting transmission and distribution costs, it is not uncommon to find those marginal consumers resistant to paying for what they receive. Public resistance to pay-TV is the best example. Also, the presence of public goods sometimes makes private markets quite unstable. There is no "natural" marginal cost floor below price, or at least not one that will permit sellers to recover the costs of producing the good. Consequently, especially when the media products being sold tend to be somewhat similar in character, there may be a tendency for sellers to try to underprice one another in ways that may endanger their long run viability. The result can be to destabilize the market in the sense that market price varies considerably from time to time. It may also happen that buyers and sellers enter or exit a given market fairly often as a result of the market's unstable operation.

The promotion of magazine subscriptions is a modest example of this phenomenon; actual subscription prices for magazines may not vary much, but the amount spent convincing readers to subscribe can be both very large relative to subscription price and highly variable. A better example is in the motion picture industry. The markets through which distributors lease films to local exhibitors are notoriously unstable in the sense described here, at least where they are not cartelized.

Advertising provides a means of mitigating if not eliminating these problems in marketing public goods. It does it by the very simple expedient of converting a public good to a private good. To illustrate, in over-the-air TV, the program and its transmission are both public goods. However, that public good can be thought of as being used to attract audiences. Audiences are then "private goods" which can be sold to advertisers. This is an apt description of the basic way in which television markets operate. It also does not far miss the mark in the case of newspapers and magazines. In the latter cases, subscription charges do exist, but the net to the seller is far less than the marginal cost of producing the last copy.

Perhaps this helps explain why advertising is so important in mass media products. Advertising converts a public good product that may be difficult to market into a private good that is eminently marketable. It is also useful, sometimes, to think of advertising as creating a "subsidy" to cover the fixed cost of creating the mass media public good product. Finally, it may be useful to think of advertising as simply a

joint product produced and sold along with the readership or viewership product. All three ways of looking at advertising can be useful, and none is really invalid.

In the next section, we will talk more particularly about the ways in which media markets get organized.

B. Monopolistic Competition and Media Markets

In the lexicon of economics, differentiated products are those where purchasers can clearly distinguish among the products of producers, and where the distinctions matter to those purchasers. Thus, wheat, an undifferentiated product, can neither be distinguished by producer origin nor does it matter; consumers may be able to distinguish among sugar company products as a result of packaging, but it does not much matter in purchasing decisions; automobiles are examples of highly differentiated products, and it clearly matters a great deal to purchasers. Mass media products are all differentiated, and some of them are very highly differentiated, indeed. Further, the differentiation most always matters to readers or viewers and advertisers.

Where differentiated products are present, the economic theory appropriate to market analysis is the theory of monopolistic competition. First developed by Chamberlin nearly fifty years ago, the theory has received modern treatment from Spence, Dixit and Stiglitz, and others. It seems to have been first applied systematically to a media industry by Reddaway. Spence and Owen have developed an insightful normative application to television programming.*

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*E. H. Chamberlin, The Theory of Monopolistic Competition, Harvard Press, 1960, A. M. Spence, "Product Selection, Fixed Costs, and Monopolistic Competition," Review of Economic Studies, June 1976; A. K. Dixit and J. E. Stiglitz, "Monopolistic Competition and Optimal Product Diversity," American Economic Review, June 1977; W. B. Reddaway, "The Economics of Newspapers," Economic Journal, June 1963; A. M. Spence and B. M. Owen, "Television Programming, Monopolistic Competition, and Welfare," Quarterly Journal of Economics, February 1977. A useful introduction to the quite technical modern literature is R. Lence, "Theories of Television Program Selection: A Discussion of the Spence-Owen Model," Studies in Industry Economics Discussion Paper, Department of Economics, Stanford.

The theory of monopolistic competition needs to be distinguished quite carefully from the neo-classical theories of monopoly and perfect competition.

The modern theory of perfect competition proceeds from the basic presumption that each producer is small relative to the size of the product market in which he sells. Hence, a firm's products are undifferentiated, each firm takes market price as given and unaffected by its own decisions, and competition between products takes place at the industry level rather than at the level of individual firms.

In contrast, the theory of monopolistic competition begins with the presumption that each firm is large relative to the size of the markets for its products. In fact, each firm produces distinguishable products, so, in a limited sense at least, it can be said that markets are coextensive with the firm's products. Another way of saying this is that each firm faces a downward sloping demand curve for each of its products because each product is unique in the minds of buyers. As a result, the firm cannot take price as given independent-

ly of its own actions. More importantly, competition between products occurs at the level of the firm rather than the industry; the constraint on an individual firm's ability to increase price arbitrarily comes from the availability of substitute products. The theory of monopolistic competition generally, but not always, presumes the presence of many producers of close substitutes for any given product.

Monopoly theory, on the other hand, ignores the availability of substitute products. The firm is presumed capable of setting price constrained only by what buyers are willing to pay and unconstrained by the competitive reactions of other actual or potential suppliers to the market.

A key difference between neoclassical monopoly and perfect competition, on one hand, and monopolistic competition on the other has to do with how the array of products actually produced gets chosen. In the former, the array of possible products is taken as given in the sense that firms may choose which products to produce, but cannot consciously change the character of the product. The operation of markets, then, simply determines which of the fixed array of products actually gets produced. In contrast, firms consciously modify old products and develop

new ones in response to market activity in monoplistic competition. In other words, the operations of markets affect the products exchanged in those markets in a very real way.

Consequently, monopolistic competition ought not to be viewed as an "intermediate case" between perfect competition and monopoly. The former theory is built upon a quite different presumption about what markets can and should do by way of product development than are the latter. Also, it should be clear that "monopoly" and "monopolistic" are not synonymous words, although it is hard even for professional economists to maintain the verbal distinction.

Market equilibrium in monopolistic competition is generated by the entrance or exit of firms attracted or repelled by profitability considerations, and by the pricing and product choices of individual firms. If firms behave independently (non-collusively), then an equilibrium occurs when no inducement to entrance or exit exists (firms earn a competitive rate of return on investment) and when no individual firm can improve its profitability by changing price or product, given the choices of all other firms. If firms behave in a consciously parallel fashion or if they collude, entry of firms producing substitute products may well take place anyhow. In fact, it may be accelerated by the higher than competitive prices so that a so-called "differentiated ologopoly" equilibrium may result. In this case, firms may earn no more than a competitive return on investment, but with more products being produced and sold at higher prices and lower quantities than would be the case if they behaved independently. Other theories of ologopoly

behavior can and have been devloped.* Of course, if all substitutes for a given product are absolutely barred from the marketplace by technology or by law, or if producers succeed in preventing entry while successfully coordinating their actions, then the theory of monopolistic competition obviously reduces to the neoclassical theory of monopoly.

These distinctions may seem rather arcane to a non-economist. They are, we now want to argue, quite important in the analysis of media

Because so much of antitrust and regulatory practice has its roots in an era when the role of markets in determining which products get produced and how they compete with one another was less well understood, public policy has often been built on quite erroneous presumptions. For instance, it is often taken as axiomatic that any price deviating from marginal cost is clear evidence of deviation from

*For example, see "Entry Deterence in the Ready-to-Eat Breakfast Cereal Industry," R. Schmalensee, Bell Journal, Autumn 1978; Television Economics, B. M. Owen, W. Manning and J. Beebe, Heath, 1974; or "Regulation, Service Quality, and Market Performance: A Model of Airline Rivalry," Studies in Industry Economics, Department of Economics, Stanford University.

social optimum. Within the context of neoclassical theory and adopting the tenets of the theory of welfare economics, that is a true proposition. However, in a monopolistic competitive market, it is false; in fact, no monopolistically competitive equilibrium is achievable in which price is equal to marginal cost. Price must always be greater than marginal cost to permit firms to break even. As a second example neoclassical theory leads more or less to an automatic presumption that if a firm faces a downward sloping demand curve, then it must be earning monopoly profits; even well-known professional economist have been known to slip here. In the case of monopolistic competition, no such presumption can be made; demand curves are always downward sloping, but entry and product development, if feasible, can generally be presumed to eliminate excess profits in the long run.*

Identification of a "relevant market" is heavily influenced by the considerations of monopolistic competition. For instance, if one

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*A recent paper by J. N. Rosse and J. C. Panzar ("Robinson versus Chamberlin: An Empirical Test for the Existence of Monopoly Rents," Studies in Industry Economics Discussion Paper, Department of Economics, Stanford) shows that this presumption is valid for daily newspaper firms in spite of the fact that almost no American newspapers face direct, local, newspaper competition.

were to apply neoclassical theory to the newspaper industry in a quite simple minded fashion, he would likely conclude that virtually all newspaper firms are monopolies; after all, newspapers are primarily differentiated from one another by city of location, and there are very few cities with more than one general circulation daily newspaper firm. However, this would neglect the fact that newspapers compete with a whole range of media products for reader attention and for advertiser dollars. See Sections II-A and III for further discussion. As another example, neoclassical theory, simplistically applied, might suggest that book publishing, with its thousands of independent firms, is a highly competitive industry. Monopolistic competition theory, with its focus on product characteristics, would lead the policy-maker to examine the fabric of competition more closely, however. He might find, then, that the mode of marketing mass market paperbacks effectively limits that market place to a much smaller number of producers.

The considerations of monopolistic competition often lead to different kinds of policy questions. Instead of quixotically trying to eliminate an uneliminatable "imperfection" in competition, policy-makers may be led to seek alternative ameliorative actions. Instead of asking just the price-quantity-profitability questions, policy is led to question the number and character of products generated by market operation. Neoclassical theory leads to a more or less blind prohibition of vertical integration or other vertical constraints on

competition; although economic theory is not well-developed here, it is easy to find cases where such vertical restraints improve rather than diminish social welfare in the presence of monopolistic competition. These and other questions play roles in our policy analyses in Section IV.

There is no question that monopolistic competition makes policy analysis much more complicated. Not only are large parts of the relevant economic theory in a relatively undeveloped state, that which does exist is difficult to apply and often gives ambiguous results. It is not without good reason that plaintiffs' lawyers are generally inclined to reject the theory of monopolistic competition out of hand, while defense attorneys absorb it like English Toffee! However, to paraphase Paul Samuelson, if the nature of the real world markets in question are monopolistically competitive, then it is better to avoid error by recognizing that fact, even if one's predictions become difficult and ambiguous as a result, than it is to blindly apply a theory that gives false predictions.*

It is the essential public good characteristic of mass media products that makes their markets monopolistically competitive. Since

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*P. A. Samuelson, "The Monopolistic Competition Revolution," Chapter 5 in Monopolistic Competition Theory, Wiley, 1967.

incremental consumers can be served at only the cost of reproducing and distributing the entertainment, news-feature, or information product once it has been created, competitive firms producing the identical product seldom can survive in economic markets. The effects of the public goodness of media products are indistinguishable from those of pervasive economies of scale in this respect. Thus, an essential characteristic of media products is the fact that they are differentiated; inter-product competition takes place at the level of the firm, and the basic considerations of monopolistic competition are relevant rather than those of neoclassical competition and monopoly.

The above discussion will play a role in our examination of each media industry in Section II. Section III has been developed to illustrate, simultaneously, both the difficulties and the feasibility of studying specific media markets. Finally, in our identifcation and analysis of economic policy issues in Section IV, the monopolistically competitive nature of media markets will play a crucial role.

C. Advertising Markets

Advertising plays such a key role in most media products that some separate discussion is appropriate. Over-the-air commercial TV and radio are wholly supported by advertising, of course. Daily newspapers generally receive about 60-80% of publishing revenue from the sale of advertising, while similar figures for commercial magazines range from nearly zero to 100%, depending on the relative attractiveness of the magazine's audience to advertisers. Occasionally advertising even finds its way into pocketbooks, and some movie theatres earn significant advertising revenues!

This subsection will not attempt to survey the subject of advertising or even a small part of it. Rather, it will simply examine aggregate statistics on advertising revenues for the principal mass media both in cross-section for given years and over time. These data are presented in Table I-C-1 that follows.

Nominal advertising expenditures have been steadily increasing over the last 38 years. In nominal terms, they have risen from about two billion to just under 38 billion dollars in 1977. In real dollars, the growth rate has averaged 3.7 percent yearly. Advertising revenues average between 3 and 3 and one-half percent of personal consumption. Cyclical economic factors appear to be important with this percentage falling in contractionary periods and increasing substantially during times of rapid growth. Families have greater discretion in budget

allocation when real incomes are increasing and a more substantial pay-off to advertising is the result.

The relative importance of the various advertising categories is rather surprising to most people. One finds, for example, that more dollars are spent in newspaper advertising than for all the electronic media combined. Pure advertising media are substantial. In particular, direct mail advertising revenues are over 14 percent of the total. Television sells 20 percent, and radio, despite the existence of thousands of stations controls under seven percent of the broadly defined advertising market. Magazines have under six percent of total advertising expenditure.

Of particular interest is the influence of television which entered the market place in 1949 and has grown to the position where it now captures over twenty percent of all advertising expenditure. In the last ten years, local TV advertising has displayed exceptional growth, partially reflecting the increased viability of UHF and stations in smaller metropolitan areas. Not surprisingly, there have been significant declines in the shares of other media as a result. A close examination of these declines documents the differential impact as well as the central role played by market segmentation.

For newspapers, the share dropped from nearly 37 percent in 1949 to 29 percent by 1963. The impact was most severely encountered in markets for national advertising where television is most effective.

Local display and classified advertising for newspapers now provides 85 percent of this revenue, up from the 75 percent when TV was just coming on the scene. In light of the new competition, newspapers were forced to rely on their comparative advantage in regional submarkets for revenues. However, in absolute terms, the newspaper industry has managed to exploit this advantage via successful differentiation of their product. In fact, until the declines occurring more generally in the late sixties and early seventies, newspaper advertising as a percentage of personal consumption expenditures was stable and actually rose slightly--even as television grew in importance.

Many influences operated on the radio industry over this time period. War-time newsprint restrictions and the growth of FM had particular importance. However, the most dramatic impact was made by TV. Radio networks were especially affected, with television able to deliver a superior product to audiences with similar characteristics. Whereas radio networks sold averttising amounting to about four percent of U.S. totals in 1949, the share is now .3 of one percent. In response to television's competition, radio has sought to serve local markets which, on average, supply approximately 73 percent of radio's advertising revenue today.

The magazine industry has also seen rather steady declines in the share of total U.S. advertising dollars. Between 1945 and

1975, the percentage of revenue going to magazines fell from 12.1 to 5.2 percent. However, until the early 1960's, revenues relative to the personal expenditure of consumers were steady, with rapid declines occurring thereafter. This decrease affected the national, general interest weeklies most adversely. This was predictable given the close substitutability and continuing development of television. Speciality publications which have been successful at identifying and segmenting audiences by interests have managed to double their share of total magazine advertising revenues. These periodicals, by exploiting the demand for a highly differentiated product, have weathered the increased competition of the electronic media.

The share of advertising going to television has increased in every year since 1949 except for rather precipitous declines occurring during 1970 and 1971. This probably stems from the regulatory ban on cigarette TV ads. TV's share dropped from 18.4% to 17 percent in a single year. TV advertising revenues as a percentage of personal consumption expenditures fell considerably, a decline not evidenced for any other medium. This fall was limited to national network and spot advertising. Local advertising on television and the nation as a whole was not affected. For other media, revenues relative to personal expenditure stayed at the previous levels, despite the rather sluggish economic environment of that period. This suggests that the restrictions may have had some impact in decreasing the sum total of advertising sold by the

cigarette industry. However, most of the impact was in the distribution of advertising revenues since, apparently, the advertising dollars were merely diverted.

Of course, casual empiricism fails to account for the multiplicity of influences in operation at any given time. Thus, no definitive conclusions should be drawn. However we observe systematic trends in the levels and distribution of advertising dollars. One can not help but notice the strong correlation between those tendencies and changes occurring in the media industries. There is evidence of the impact of the evolving electronic technology, the effects of government regulation, and the importance of product differentiation.

Table I-C-1

ANNUAL U.S. ADVERTISING EXPENDITURE, 1939-1977

| | Total Expenditure, All Media | | | Per Household Expenditure, All Media | | | Personal Consumption Expenditure per Household | |
|---|---|---|---|---|---|---|---|---|
| | Millions of Dollars | | % of Personal Consumption Expenditure | Dollars Per Household | | Real Annual %tage Change | | |
| | $CURRENT | $1958 | | $CURRENT | $1958 | | $1958 | %tage Change |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1939 | $ 2,010 | $ 4,718 | 3.0% | $ 58 | $136 | na | $4,527 | na |
| 1940 | $ 2,110 | $ 4,839 | 3.0% | $ 60 | $138 | 1.5% | $4,659 | 2.9% |
| 1941 | 2,250 | 4,767 | 2.8 | 63 | 133 | -3.6 | 4,775 | 2.5 |
| 1942 | 2,160 | 4,138 | 2.4 | 59 | 114 | -14.3 | 4,657 | -2.5 |
| 1943 | 2,490 | 4,560 | 2.5 | 68 | 124 | 8.8 | 4,936 | 6.0 |
| 1944 | 2,700 | 4,847 | 2.5 | 73 | 131 | 5.6 | 5,236 | 6.1 |
| 1945 | $ 2,840 | $ 4,982 | 2.4% | $ 76 | $133 | 1.5% | $5,591 | 6.8% |
| 1946 | 3,340 | 5,076 | 2.3 | 87 | 132 | -0.8 | 5,696 | 1.9 |
| 1947 | 4,260 | 5,710 | 2.6 | 109 | 146 | 10.6 | 5,546 | -2.6 |
| 1948 | 4,870 | 6,118 | 2.8 | 120 | 151 | 3.4 | 5,415 | -2.4 |
| 1949 | 5,210 | 6,587 | 2.9 | 124 | 156 | 3.3 | 5,338 | -1.4 |
| 1950 | $ 5,700 | $ 7,107 | 3.0% | $131 | $163 | 4.5% | $5,497 | 3.0% |
| 1951 | 6,420 | 7,500 | 3.1 | 144 | 168 | 3.1 | 5,417 | -1.5 |
| 1952 | 7,140 | 8,160 | 3.3 | 157 | 179 | 6.5 | 5,453 | 0.7 |
| 1953 | 7,740 | 8,766 | 3.4 | 167 | 189 | 5.6 | 5,615 | 3.0 |
| 1954 | 8,150 | 9,096 | 3.5 | 174 | 194 | 2.6 | 5,612 | -0.1 |
| 1955 | $ 9,150 | $10,066 | 3.6% | $191 | $211 | 8.8% | $5,840 | 4.1% |
| 1956 | 9,910 | 10,543 | 3.7 | 203 | 216 | 2.4 | 5,800 | -0.7 |
| 1957 | 10,270 | 10,533 | 3.7 | 207 | 213 | -1.4 | 5,805 | 0.1 |
| 1958 | 10,310 | 10,310 | 3.6 | 205 | 205 | -3.8 | 5,744 | -1.1 |
| 1959 | 11,270 | 11,093 | 3.6 | 220 | 216 | 5.4 | 5,963 | 3.8 |
| 1960 | $11,960 | $11,578 | 3.7% | $227 | $220 | 1.9% | $5,978 | 0.3% |
| 1961 | 11,860 | 11,338 | 3.5 | 223 | 213 | -3.2 | 6,010 | 0.5 |
| 1962 | 12,430 | 11,749 | 3.5 | 227 | 215 | 0.9 | 6,143 | 2.2 |
| 1963 | 13,100 | 12,220 | 3.5 | 237 | 221 | 2.8 | 6,332 | 3.1 |
| 1964 | 14,150 | 13,006 | 3.5 | 253 | 232 | 5.0 | 6,572 | 3.8 |
| 1965 | $15,250 | $13,751 | 3.5% | $266 | $240 | 3.4% | $6,776 | 3.1% |
| 1966 | 16,630 | 14,601 | 3.6 | 286 | 251 | 4.6 | 7,025 | 3.7 |
| 1967 | 16,870 | 14,345 | 3.4 | 287 | 244 | -2.8 | 7,086 | 0.9 |
| 1968 | 18,090 | 14,791 | 3.4 | 299 | 245 | 0.4 | 7,249 | 2.3 |
| 1969 | 19,420 | 15,148 | 3.4 | 314 | 245 | 0.0 | 7,316 | 0.9 |
| 1970 | $19,550 | $14,460 | 3.2% | $311 | $230 | -6.1% | $7,280 | -0.5% |
| 1971 | 20,740 | 14,646 | 3.1 | 322 | 228 | -0.9 | 7,331 | 0.7 |
| 1972 | 23,300 | 15,948 | 3.2 | 349 | 239 | 4.8 | 7,524 | 2.6 |
| 1973 | 25,120 | 16,280 | 3.1 | 368 | 239 | 0.0 | 7,691 | 2.2 |
| 1974 | 26,730 | 15,705 | 3.0 | 383 | 225 | -5.9 | 7,482 | -2.7 |
| 1975 | $28,270 | $15,207 | 2.9% | $397 | $214 | -4.9% | $7,415 | -0.9% |
| 1976 | 33,720 | 17,239 | 3.1 | 463 | 237 | 10.7 | 7,675 | 3.5 |
| 1977 | 37,990 | 18,397 | 3.1 | 508 | 246 | 3.8 | 7,833 | 2.1 |

See the last page of the Table for Sources and Notes.

Table I-C-1
ANNUAL U.S. ADVERTISING EXPENDITURE, 1939-1977, Continued

| | Television Advertising | | | | Radio Advertising | | | | Electronic Media as % of Total 17 |
|---|---|---|---|---|---|---|---|---|---|
| | as % of Total Adv 9 | Percentage | | | as % of Total Adv 13 | Percentage | | | |
| | | Network 10 | Spot 11 | Local 12 | | Network 14 | Spot 15 | Local 16 | |
| 1939 | - | - | - | - | 9.2% | 53.8% | 19.0% | 27.2% | 9.2% |
| 1940 | - | - | - | - | 10.2 | 52.6% | 19.5% | 27.9% | 10.2% |
| 1941 | - | - | - | - | 11.0 | 50.6 | 21.1 | 28.3 | 11.0 |
| 1942 | - | - | - | - | 12.0 | 49.6 | 22.7 | 27.7 | 12.0 |
| 1943 | - | - | - | - | 12.6 | 50.0 | 22.6 | 27.4 | 12.6 |
| 1944 | - | - | - | - | 14.6 | 48.9 | 22.1 | 29.0 | 14.6 |
| 1945 | - | - | - | - | 14.9% | 46.7% | 21.7% | 31.6% | 14.9% |
| 1946 | - | - | - | - | 13.6 | 44.0 | 21.5 | 34.5 | 13.6 |
| 1947 | - | - | - | - | 11.9 | 39.7 | 20.9 | 39.3 | 11.9 |
| 1948 | - | - | - | - | 11.5 | 37.5 | 21.5 | 40.9 | 11.5 |
| 1949 | 1.1% | 51.7% | 15.5% | 32.8% | 11.0 | 35.6 | 21.5 | 42.9 | 12.1 |
| 1950 | 3.0% | 49.7% | 18.1% | 32.2% | 10.6% | 32.4% | 22.5% | 45.1% | 13.6% |
| 1951 | 5.2 | 54.5 | 21.1 | 24.4 | 9.4 | 29.7 | 22.8 | 47.5 | 14.6 |
| 1952 | 6.4 | 56.4 | 20.7 | 22.9 | 8.7 | 26.0 | 22.6 | 51.4 | 15.1 |
| 1953 | 7.8 | 52.8 | 23.9 | 23.3 | 7.9 | 23.1 | 23.9 | 53.0 | 15.7 |
| 1954 | 9.9 | 52.2 | 25.6 | 22.3 | 6.9 | 20.4 | 24.2 | 55.5 | 16.8 |
| 1955 | 11.3% | 53.1% | 25.1% | 21.7% | 6.0% | 15.4% | 24.6% | 60.0% | 17.3% |
| 1956 | 12.4 | 52.5 | 26.9 | 20.7 | 5.7 | 10.6 | 28.4 | 61.0 | 18.1 |
| 1957 | 12.5 | 53.7 | 27.4 | 19.0 | 6.0 | 10.2 | 30.3 | 59.5 | 18.5 |
| 1958 | 13.5 | 53.5 | 28.6 | 17.9 | 6.0 | 9.4 | 30.6 | 60.0 | 19.5 |
| 1959 | 13.6 | 50.8 | 31.8 | 17.5 | 5.8 | 6.7 | 31.4 | 61.9 | 19.4 |
| 1960 | 13.6% | 50.4% | 32.4% | 17.2% | 5.8% | 6.2% | 32.0% | 61.8% | 19.4% |
| 1961 | 14.3 | 52.5 | 32.4 | 15.1 | 5.8 | 6.3 | 32.2 | 61.5 | 20.0 |
| 1962 | 15.3 | 51.4 | 33.2 | 15.4 | 5.9 | 6.3 | 31.7 | 62.1 | 21.2 |
| 1963 | 15.5 | 50.4 | 34.4 | 15.2 | 6.0 | 7.1 | 30.8 | 62.1 | 21.5 |
| 1964 | 16.2 | 49.5 | 35.2 | 15.3 | 6.0 | 7.0 | 30.3 | 62.8 | 22.2 |
| 1965 | 16.5% | 49.2% | 35.5% | 15.3% | 6.0 | 6.5% | 30.0% | 63.5% | 22.5% |
| 1966 | 17.0 | 49.3 | 35.0 | 15.7 | 6.1 | 6.2 | 30.5 | 63.3 | 23.0 |
| 1967 | 17.2 | 50.0 | 34.0 | 16.0 | 6.2 | 6.1 | 30.0 | 63.9 | 23.5 |
| 1968 | 17.9 | 47.1 | 35.0 | 17.9 | 6.6 | 5.3 | 30.3 | 64.5 | 24.4 |
| 1969 | 18.5 | 46.8 | 35.0 | 18.2 | 6.5 | 4.7 | 29.1 | 66.2 | 25.0 |
| 1970 | 18.4% | 46.1% | 34.3% | 19.6% | 6.7% | 4.3% | 28.4% | 67.4% | 25.1% |
| 1971 | 17.0 | 45.1 | 32.4 | 22.5 | 7.0 | 4.4 | 27.3 | 68.3 | 24.0 |
| 1972 | 17.6 | 44.1 | 32.2 | 23.7 | 6.9 | 4.6 | 24.9 | 70.5 | 24.5 |
| 1973 | 17.8 | 44.1 | 30.9 | 25.0 | 6.9 | 3.9 | 23.2 | 72.8 | 24.6 |
| 1974 | 18.1 | 44.2 | 30.8 | 25.0 | 6.9 | 3.8 | 22.0 | 74.2 | 25.0 |
| 1975 | 18.6% | 43.8% | 30.9% | 25.3% | 7.2% | 4.2% | 21.7% | 74.1% | 25.8% |
| 1976 | 19.9 | 42.5 | 32.0 | 25.4 | 6.9 | 4.5 | 22.2 | 73.3 | 26.8 |
| 1977 | 20.1 | 45.3 | 29.6 | 25.1 | 6.8 | 4.6 | 22.4 | 73.0 | 26.9 |

Table I-C-1

ANNUAL U.S. ADVERTISING EXPENDITURE, 1939-1977, Continued

| | Newspaper Advertising | | | Magazine Advertising | | | | Farm Publications as % of Total Adv 25 |
|---|---|---|---|---|---|---|---|---|
| | As % of Total Adv 18 | Percentage Nat'l 19 | Percentage Local 20 | As % of Total Adv 21 | Percentage Weeklies 22 | Percentage Women's 23 | Percentage Monthlies 24 | |
| 1939 | 39.5% | 19.2% | 80.8% | 8.4% | 52.1% | 29.0% | 18.9% | .8% |
| 1940 | 38.6% | 19.8% | 80.2% | 8.8% | 55.4% | 26.3% | 18.3% | .9% |
| 1941 | 37.5 | 19.2 | 80.8 | 8.9 | 58.2 | 25.9 | 15.9 | .8 |
| 1942 | 36.9 | 17.7 | 82.3 | 8.7 | 57.2 | 27.8 | 15.0 | .8 |
| 1943 | 36.1 | 20.0 | 80.0 | 10.4 | 59.5 | 25.5 | 15.1 | 1.0 |
| 1944 | 32.8 | 21.6 | 78.4 | 11.3 | 56.4 | 26.9 | 16.7 | 1.1 |
| 1945 | 32.4% | 22.1% | 77.9% | 12.1% | 54.7% | 28.2% | 17.2% | 1.1% |
| 1946 | 34.6 | 20.6 | 79.4 | 12.1 | 49.9 | 31.4 | 18.8 | 1.1 |
| 1947 | 34.5 | 22.0 | 78.0 | 10.9 | 53.0 | 28.7 | 18.3 | 1.2 |
| 1948 | 35.8 | 21.7 | 78.3 | 9.8 | 54.1 | 27.9 | 18.0 | 1.1 |
| 1949 | 36.7 | 24.2 | 75.8 | 8.8 | 53.5 | 28.2 | 18.3 | 1.1 |
| 1950 | 36.3% | 25.0% | 75.0% | 8.4% | 54.6% | 27.0% | 18.4% | 1.0% |
| 1951 | 35.1 | 23.5 | 76.5 | 8.3 | 55.5 | 26.7 | 17.8 | 1.0 |
| 1952 | 34.5 | 21.8 | 78.2 | 8.1 | 56.5 | 25.9 | 17.6 | 1.0 |
| 1953 | 34.0 | 23.0 | 77.0 | 8.1 | 56.0 | 25.2 | 18.8 | .9 |
| 1954 | 32.9 | 22.6 | 77.4 | 7.7 | 57.7 | 24.2 | 18.1 | .9 |
| 1955 | 33.6% | 23.1% | 76.9% | 7.6% | 57.5% | 23.3% | 19.2% | .8% |
| 1956 | 32.5 | 23.4 | 76.6 | 7.6 | 58.0 | 21.9 | 20.1 | .7 |
| 1957 | 31.8 | 23.5 | 76.5 | 7.6 | 58.0 | 21.2 | 20.7 | .7 |
| 1958 | 30.8 | 22.8 | 77.2 | 7.1 | 57.9 | 20.6 | 21.5 | .6 |
| 1959 | 31.3 | 21.9 | 78.1 | 7.4 | 57.6 | 20.2 | 22.2 | .6 |
| 1960 | 30.8% | 21.1% | 78.9% | 7.6% | 57.8% | 20.2% | 22.0% | .6% |
| 1961 | 30.4 | 20.7 | 79.3 | 7.5 | 56.8 | 20.9 | 22.3 | .5 |
| 1962 | 29.4 | 19.7 | 80.3 | 7.6 | 55.1 | 21.2 | 23.7 | .5 |
| 1963 | 28.9 | 18.6 | 81.4 | 7.6 | 53.9 | 21.8 | 24.4 | .5 |
| 1964 | 29.1 | 18.8 | 81.2 | 7.6 | 54.3 | 21.5 | 24.2 | .5 |
| 1965 | 29.0% | 17.7% | 82.3% | 7.6% | 52.5% | 23.2% | 24.3% | .5% |
| 1966 | 29.3 | 18.2 | 81.8 | 7.5 | 52.5 | 22.3 | 25.2 | .4 |
| 1967 | 29.1 | 17.2 | 82.8 | 7.4 | 52.3 | 22.7 | 25.1 | .4 |
| 1968 | 28.9 | 17.0 | 83.0 | 7.1 | 51.2 | 22.1 | 26.7 | .4 |
| 1969 | 29.4 | 16.5 | 83.5 | 6.9 | 49.3 | 22.9 | 27.8 | .3 |
| 1970 | 29.2% | 15.6% | 84.4% | 6.6% | 47.8% | 23.3% | 28.9% | .3% |
| 1971 | 29.9 | 16.0 | 84.0 | 6.6 | 45.7 | 24.8 | 29.5 | .3 |
| 1972 | 30.1 | 15.7 | 84.3 | 6.2 | 42.4 | 25.6 | 32.1 | .3 |
| 1973 | 30.2 | 14.6 | 85.4 | 5.8 | 40.3 | 25.0 | 34.7 | .3 |
| 1974 | 29.9 | 14.9 | 85.1 | 5.6 | 41.9 | 24.7 | 33.4 | .3 |
| 1975 | 29.9% | 14.5% | 85.5% | 5.2% | 41.8% | 25.1% | 33.1% | .3% |
| 1976 | 29.4 | 15.2 | 84.8 | 5.3 | 41.8 | 25.5 | 32.6 | .3 |
| 1977 | 29.1 | 15.2 | 84.8 | 5.7 | 41.1 | 26.8 | 32.1 | .3 |

Table I-C-1

ANNUAL U.S. ADVERTISING EXPENDITURE, 1939-1977, Continued

| | Business Papers As % of Total Adv 26 | All Periodicals As % of Total Adv 27 | Direct Mail Adv As % of Total Adv 28 | Outdoor Adv As % of Total Adv 29 | Miscl. Expenditure As % of Total Adv 30 | All Advertising Spending, Percentage | |
|---|---|---|---|---|---|---|---|
| | | | | | | Nat'l 31 | Local 32 |
| 1939 | 3.4% | 52.1% | 16.6% | 2.2% | 20.0% | 55.7% | 44.3% |
| 1940 | 3.6% | 51.9% | 15.8% | 2.1% | 19.9% | 56.4% | 43.6% |
| 1941 | 4.0 | 51.2 | 15.7 | 2.4 | 19.7 | 56.9 | 43.1 |
| 1942 | 4.5 | 50.9 | 15.2 | 2.0 | 19.8 | 56.5 | 43.5 |
| 1943 | 5.7 | 53.2 | 12.9 | 1.7 | 19.6 | 58.4 | 41.6 |
| 1944 | 6.6 | 51.7 | 12.1 | 2.1 | 19.6 | 61.3 | 38.7 |
| 1945 | 7.2% | 52.8% | 10.2% | 2.5% | 19.5% | 61.3% | 38.7% |
| 1946 | 6.3 | 54.1 | 10.0 | 2.6 | 19.7 | 58.4 | 41.6 |
| 1947 | 5.5 | 52.0 | 13.6 | 2.8 | 19.6 | 58.7 | 41.3 |
| 1948 | 5.2 | 51.9 | 14.1 | 2.7 | 19.7 | 57.4 | 42.6 |
| 1949 | 4.8 | 51.3 | 14.5 | 2.5 | 19.6 | 57.4 | 42.6 |
| 1950 | 4.4% | 50.1% | 14.1% | 2.5% | 19.7% | 57.2% | 42.8% |
| 1951 | 4.5 | 48.9 | 14.4 | 2.3 | 19.7 | 57.8 | 42.2 |
| 1952 | 5.1 | 48.7 | 14.3 | 2.3 | 19.6 | 57.4 | 42.6 |
| 1953 | 5.1 | 48.1 | 14.2 | 2.3 | 19.7 | 58.3 | 41.7 |
| 1954 | 5.0 | 46.5 | 14.7 | 2.3 | 19.6 | 59.1 | 40.9 |
| 1955 | 4.9% | 46.8% | 14.2% | 2.1% | 19.6% | 58.8% | 41.2% |
| 1956 | 5.0 | 45.9 | 14.3 | 2.0 | 19.7 | 59.9 | 40.1 |
| 1957 | 5.5 | 45.6 | 14.3 | 1.9 | 19.6 | 60.9 | 39.1 |
| 1958 | 5.1 | 43.7 | 15.4 | 1.9 | 19.6 | 61.5 | 38.5 |
| 1959 | 5.0 | 44.3 | 15.0 | 1.7 | 19.6 | 60.8 | 39.2 |
| 1960 | 5.1% | 44.0% | 15.3% | 1.7% | 19.6% | 61.1% | 38.9% |
| 1961 | 4.9 | 43.3 | 15.6 | 1.5 | 19.6 | 61.7 | 38.3 |
| 1962 | 4.8 | 42.3 | 15.6 | 1.4 | 19.5 | 61.9 | 38.1 |
| 1963 | 4.7 | 41.7 | 15.9 | 1.3 | 19.6 | 62.0 | 38.0 |
| 1964 | 4.4 | 41.6 | 15.4 | 1.2 | 19.6 | 61.6 | 38.4 |
| 1965 | 4.4% | 41.5% | 15.2% | 1.2% | 19.6% | 61.2% | 38.8% |
| 1966 | 4.3 | 41.5 | 14.8 | 1.1 | 19.6 | 61.0 | 39.0 |
| 1967 | 4.2 | 41.1 | 14.7 | 1.1 | 19.6 | 60.5 | 39.5 |
| 1968 | 3.9 | 40.3 | 14.4 | 1.1 | 19.6 | 59.7 | 40.3 |
| 1969 | 3.9 | 40.5 | 13.7 | 1.1 | 19.6 | 58.7 | 41.3 |
| 1970 | 3.8% | 39.9% | 14.1% | 1.2% | 19.7% | 58.1% | 41.9% |
| 1971 | 3.5 | 40.2 | 14.8 | 1.3 | 19.7 | 56.8 | 43.2 |
| 1972 | 3.4 | 39.9 | 14.7 | 1.3 | 19.7 | 55.9 | 44.1 |
| 1973 | 3.4 | 39.7 | 14.7 | 1.2 | 19.7 | 54.8 | 45.2 |
| 1974 | 3.4 | 39.2 | 14.9 | 1.2 | 19.7 | 55.1 | 44.9 |
| 1975 | 3.3% | 38.6% | 14.7% | 1.2% | 19.7% | 54.5% | 45.5% |
| 1976 | 3.1 | 38.0 | 14.3 | 1.1 | 19.7 | 55.1 | 44.9 |
| 1977 | 3.1 | 38.2 | 14.1 | 1.1 | 19.7 | 55.5 | 45.5 |

Table I-C-1

ANNUAL U.S. ADVERTISING EXPENDITURE, 1939-1977, concluded.

Sources: McCann-Erickson Inc. time series on advertising expenditure from issues of Advertising Age; implicit GNP deflator from issues of Survey of Current Business; Personal Consumption Expenditure from Economic Report of the President; U.S. households from issues of Statistical Abstracts (1939 and 1977 are estimated by projection).

Notes: 1) The current or nominal value and 2) the constant dollar value of all annual U.S. advertising expenditure in millions of dollars as defined by McCann Erickson Inc. 3) Advertising expenditure as a percentage of total annual personal consumption expenditure (GNP less gross investment, net international trade, and government). 4) and 5) convert 1) and 2) to dollars per U.S. household while 6) gives the annual percentage change in 5). 7) Lists constant dollar personal consumption expenditure per household while 8) lists the annual percentage change in 7).

9) Total television advertising revenue 10) paid to networks, 11) national advertisers purchasing through advertising agencies from local stations rather than from networks, and 12) local advertisers purchasing directly from local stations. Similar definitions for radio advertising 13)-16). 17) = 9) + 13).

18) Total daily and weekly newspaper advertising revenues, 19) from national advertisers purchasing through advertising agencies, and 20) from direct sales by newspapers to local advertisers. Total magazine advertising revenues 21) are divided among weekly, women's and monthly magazines, 22), 23) and 24). 25) is the advertising revenue of all farm newspapers and magazines.

26) Advertising in business periodicals. 27) = 13) + 21) + 25) + 26). 28) Expenditures on direct mail advertising, mostly bulk rate mail. 29) Payments for billboard and other outdoor advertising. 30) Miscl. expenditures are largely advertising agency revenues (commissions), the expenses of in-house advertising departments of advertisers, talent costs for commercials and advertising make-up, the telephone company Yellow Pages, etc. 31) and 32) divide all advertising expenditures between national (placed through or associated with advertising agencies) and local (placed by or associated with local advertisers purchasing directly from the local medium).

II. Media Industries: Technology, Economic Structure, and Development

This section provides brief discussions and summaries of available data for:

A. Newspapers

B. Over-the-Air Television

C. The Book Publishing Industry

D. Other Media

1. Cable Television

2. Magazines

3. Radio

A. Newspapers

The Firm and Its Markets

The daily newspaper industry consists of nearly 1600 enterprises of various sizes. At one extreme is New York's Daily News, with reported circulations of just under 2 million in 1977. On the other hand, the South Fulton (Georgia) Today sells only 1200 newspapers daily. These firms are further distinguished in a variety of ways. Some publish Sunday editions, others have weekday evening distributions only. A number of newspaper firms are located in thriving metropolitan centers and distribute their product widely, catering to a whole spectrum of consumer tastes and interests. In contrast, there exist parochial, small-town newspapers which reflect parochial, small-town attitudes and concerns.

Despite the apparent diversity, there are a number of elements common to all daily newspapers. The most important feature is the locational identity of newspaper firms. In 1971 there were 1580 firms publishing in 1536 towns. The newspaper product sold by each of these is highly differentiated in numerous dimensions. One finds various combinations of news, editorials, comics, sports, women's features, and advertising. However, this content is edited with the local readers in mind.

Of course, the community orientation means that consumer demand for the newspaper product is constrained by demographic characteristics of the local market. Thus we find an unsurprising relationship between community size and circulation. Table (II-A-1) illustrates this

TABLE II-A-1
Mean Daily Circulation by City Size
1977

| City Population (thousands) | Number of Firms | Mean Circulation |
|---|---|---|
| 0-10 | 339 | 5,713 |
| 10-50 | 833 | 14,948 |
| 50-100 | 211 | 39,114 |
| 100-500 | 150 | 126,394 |
| 500-1000 | 24 | 314,183 |
| 1000+ | 23 | 444,457 |
| All Cities | 1,580 | 37,572 |

Source: Editor and Publisher International Yearbook, 1978.

for 1977. For example, the 339 firms located in cities with populations ranging from 0 to 10,000 people had average daily circulations of 5,713 in 1977. For the 23 firms situated in cities of greater than one million in population, the mean circulation was 444,457.

Naturally, the correlation between community size and circulation is not perfect. Newspapers face a continuing struggle to attract as many readers in the local market as possible. The ability to induce readers to purchase the paper depends on a variety of circumstances. Of major importance is the content of the newspaper--its features, news, commentary, and advertising. Inter and intramedia competition also have a tremendous impact. We shall see that, despite the seemingly isolated structure of the industry, there exists considerable overlap in newspaper markets. Also, any medium which competes for the attention of readers is potentially damaging to a newspaper firm. To the extent that numerous alternative sources of information and entertainment exist, competition for an audience is quite intense.

Of course, circulation is not the only product dimension of importance to the newspaper firm. However, its level plays a large role in the overall stature of the enterprise. For example, statistical models describing the structure of newspaper firms* can successfully explain over 90% of the variance in total publishing revenues. Similarly, there exists a systematic relationship between circulation and a whole host of variables which are relevant to the firm's internal structure.

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*See James N. Rosse, "The Daily Newspaper Firm: A 24-Equation Reduced Form Model," Studies in Industry Economics No. 76, Department of Economics, Stanford University, January, 1977.

These include categories of revenues, costs, and published space. Table (II-A-2) describes the profile of a representative newspaper for 1977. It is assumed that the firm publishes 6 morning or evening editions per week, sells an average of 50,000 papers daily, and is the sole newspaper firm located in the city of publication.

The elements of a typical firm's expenses provide a picture of the technology of production. The "first-copy" costs include editorial and typesetting expenses. In addition to composing the first copy, there are expenditures associated with reproduction, namely printing and newsprint costs. The latter amount to over 20 percent of total expenses for our representative firm. For firms with larger circulations, these variable components are more important. Finally, there are substantial costs associated with distribution, advertising and circulation promotion, and firm management.

A revenue and cost comparison reveals a fact that is fundamental to understanding the operation of newspaper markets. Notice that, for our representative firm, circulation revenues do not even cover wage and salary expenses. Indeed, income from circulation is a mere 25% of total revenue, with the rest stemming from the sale of advertising space. For smaller dailies, as little as ten percent of publishing revenues may be earned from subscriptions and single-copy sales to readers. For newspapers with large circulations, the percentage rarely exceeds 30 percent. The upshot of these considerations is that a newspaper's viability as an economic enterprise depends crucially on its ability to compete in advertising markets.

TABLE II-A-2
A Representative Newspaper in 1977,
An Economic Profile*

| | Prediction | Percentage Standard Error | Mean Prediction as % of the Indicated Quantity |
|---|---|---|---|
| I. REVENUES ($1000 Current) | | | |
| AI. Total Publishing | $7,536 | 11.3% | As % of Publishing Revenue |
| 1. Total Advertising | 5,738 | 12.9 | 76.0% |
| a. Local Display | 3,792 | 14.4 | 50.2 |
| b. National Display | 523 | 42.1 | 6.9 |
| c. Classified | 1,389 | 31.0 | 18.2 |
| 2. Circulation | 1,859 | 15.0 | 24.8 |
| II. EXPENSES ($1000 Current) | | | |
| A. Total Departmental | $6,201 | 11.0 | 82.4 |
| 1. Administrative | 1,492 | 27.1 | 19.8 |
| 2. Advertising | 586 | 22.9 | 7.7 |
| 3. Circulation | 857 | 27.0 | 11.4 |
| 4. Editorial | 986 | 19.1 | 13.1 |
| 5. Mechanical | 1,212 | 18.4 | 16.1 |
| a. Composing | 894 | 19.7 | 11.8 |
| b. Printing | 305 | 18.5 | 4.1 |
| 6. Newsprint | 1,251 | 13.7 | 16.6 |
| B. Wage and Salary | 2,361 | 15.3 | 31.3 |
| III. PUBLISHED SPACE (1000 Column Inches) | | | |
| Total Space | 2,518 in. | 18.5 | As % of Published Space |
| 1. Advertising | 1,511 | 20.3 | 60.1% |
| 2. News and Features | 1,049 | 20.8 | 41.8 |
| IV. ADVERTISING SPACE SOLD (1000 Column Inches) | | | |
| Total Advertising | 1,433 in. | 20.6 | As % of Adv. Space Sold |
| 1. Local Display | 1,013 | 23.0 | 70.7% |
| 2. National Display | 105 | 36.2 | 7.4 |
| 3. Classified | 331 | 37.0 | 23.1 |

*Assumes a daily circulation of 50,000 and that the firm publishes 6 morning or evening editions per week with no same-city competition.

Source: Calculated using estimates reported in "The Daily Newspaper Firm: A 24-Equation Reduced form Model," by James N. Rosse, Studies in Industry Economics, #76, Department of Economics, Stanford University, January 1977.

Of course, this does not imply that competition for circulation is unimportant. After all, what newspapers offer is access to some population segment. The demand for advertising is a function of, among other things, the price of advertising, and the number, location and characteristics of readers. Other things equal, the demand for advertising will rise when circulation increases.

The above fact explains why newspapers spend so much on circulation promotion. However, given the high marginal advertising value of additional viewers, why not distribute the paper free of charge? Advertisers must be confident that consumers who acquire the newspapers are actually reading them. The fact that they are willing to pay for a newspaper assures advertisers that indeed they are.

The relationship between circulation and advertising markets does not end here. Interestingly enough, newspaper circulations exhibit systematic weekly and annual cycles. Circulations rise during periods of brisk shopping activity. It appears, therefore, that buyers certainly value the advertising content of newspapers explicitly for the price and product information found in advertising. In fact, some readership surveys indicate that more subscribers read ads than read editorials!

Most newspaper advertising, after all, contains quite a bit of useful information. Only a small percentage is national in scope. This is not surprising given the comparative advantage that the electronic media have in presenting impression rather than information-oriented messages. On the other hand, the printed page is more conducive to the supply of information directly useful to the consumer. In addition, the more localized character of the audience means that messages specific

to a particular retail outlet or small commercial enterprise are relevant. One can find information about a department store sale, the opening of a new restaurant or the latest double-feature at the drive-in.

Thus, newspapers must simultaneously compete in two general classes of markets, both of which are multidimensional. Success in attracting circulation depends on the outcome of competition with media supplying entertainment, news, features, information, or any combination of these product attributes. They also must compete for advertising from national firms, retail enterprises, service industries, and even individuals wishing to convey messages. Major adversaries include other dailies, T.V., magazines, radio, weekly newspapers, billboards, direct mail advertising, and virtually any medium which is capable of attracting the attention of potential readers.

Thus, there exists no simple characterization of a newspaper market. In fact, there are numerous markets of importance. Another matter of crucial relevance involves the interactive relationship between them. Competitive outcomes in each are simultaneously determined and, therefore, analysis of any one in isolation is unlikely to result in dependable conclusions.

Overview of Trends in the Industry

This section describes some of the major changes occurring in the industry over the last 55 years. Given the complex structure of newspaper markets, these trends must be cautiously interpreted. However, the secular changes are so systematic that they do justify some attention.

Our focus will be on general interest daily newspapers published at least five days per week. Morning and evening editions jointly owned and produced by one corporate entity will be regarded as a single newspaper firm. So will agency shops which are enterprises with separately owned and produced editorial products but joint mechanical production and joint sale of advertising and subscriptions. Jointly owned and produced newspapers are counted as different firms if they have separate editorial identities and if their subscriptions and advertising space can be purchased separately. These distinctions are motivated by the fact that the newspaper's principal competitive arena is local in character, and by the need to identify independent economic actors in those local markets.

Table II-A-3 summarizes the aggregate changes since 1923. As might be expected, total circulation of daily newspapers has increased rather steadily, having doubled to over 61 million by 1973. Note the recent decline, however. This growth has occurred despite a 20 percent decline in the number of newspaper firms, from 1977 to 1580. Since 1943, the number of firms has remained relatively stable.

The growth in total circulation was primarily due to expansion by existing firms. Indeed, mean circulation per firm rose from 15,405

TABLE II-A-3

Trends, 1923 - 1978

| Year | No. Firms | Total Daily Circulation Millions | Mean Circulation | Median Circulation |
|---|---|---|---|---|
| 1923 | 1,977 | 30.5 | 15,405 | 3,871 |
| 1933 | 1,745 | 36.6 | 20,974 | 4,731 |
| 1943 | 1,597 | 44.1 | 27,615 | 6,072 |
| 1948 | 1,536 | 51.3 | 33,416 | 7,322 |
| 1953 | 1,582 | 54.3 | 34,325 | 8,217 |
| 1958 | 1,545 | 57.2 | 37,028 | 9,104 |
| 1963 | 1,552 | 59.7 | 38,497 | 9,803 |
| 1968 | 1,547 | 60.8 | 39,313 | 10,521 |
| 1973 | 1,566 | 61.3 | 39,135 | 11,643 |
| 1978 | 1,580 | 59.4 | 37,571 | 11,967 |
| % Change 1923-78 | -20% | 95% | 144% | 209% |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

1978 Editor & Publisher International Yearbook.

copies in 1923 to 37,571 in 1978, a 144 percent increase. The 209 percent change in media circulation for the period, 3,871 to 11,967 indicates that smaller firms have grown relative to their larger counterparts.

Table II-A-4 presents the distribution of firms by publication schedule. In 1978, about 52% of all newspaper firms sold evening editions only. About one-third publish daily and Sunday editions. Note the large rise in the frequency of this category. Finally, approximately 9% of all firms publish two editions daily.

The distribution of circulation among newspaper firms has changed remarkably little over the last 55 years. In Table II-A-5, firms are ordered by circulation size and divided into quartiles. One finds that the smallest quarter produced only 2.2 percent of all papers sold in 1923. At the other extreme, the largest 25 percent of all firms sold 82.5 percent. The figures for 1978 are 3.0 and 78.9 percent respectively. Examination of the largest 10, 5, and 1 percent of firms also reveals relative stability. In 1978, 19.8 percent of all daily newspapers were sold by the largest firms comprising one percent of the firm population. The largest five percent produced almost 1/2 and the largest ten percent produced more than 60 percent of total newspaper circulation. These percentages have changed slightly since 1923, with the largest firms becoming relatively less important.

Table II-A-6 summarizes data on newspaper cities. Over the last 30 years there has been an increase in the number of cities with daily newspapers. Today there are over 1,500 cities with their own newspaper. The mean population of these cities is over 53,000 for a

TABLE II-A-5

Percent Distribution of Firms

by Publication Schedule: 1923, 1948, 1978

| Schedule | 1923 | 1948 | 1978 |
|---|---|---|---|
| Evening Only | 68% | 63% | 52% |
| Morning Only | 5 | 3 | 5 |
| Evening and Sunday | 10 | 16 | 27 |
| Morning and Sunday | 14 | 5 | 6 |
| Morning, Evening and Sunday | 1 | 10 | 9 |
| Other | 2 | 3 | 2 |
| TOTAL | 100% | 100% | 100% |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

1978 Editor & Publisher International Yearbook.

TABLE II-A-5

Percent of Total Daily Circulation by Quartiles

| Years | Smallest 25% | Second 25% | Third 25% | Largest 25% | Total |
|---|---|---|---|---|---|
| 1923 | 2.2 | 4.8 | 10.4 | 82.5 | 100 |
| 1933 | 2.2 | 4.4 | 9.2 | 84.2 | 100 |
| 1943 | 2.2 | 4.2 | 9.3 | 84.3 | 100 |
| 1948 | 2.2 | 4.2 | 9.1 | 84.5 | 100 |
| 1953 | 2.3 | 4.4 | 9.7 | 83.6 | 100 |
| 1958 | 2.3 | 4.5 | 9.7 | 83.5 | 100 |
| 1963 | 2.4 | 4.6 | 10.0 | 83.0 | 100 |
| 1968 | 2.5 | 4.9 | 10.7 | 81.9 | 100 |
| 1973 | 2.8 | 5.4 | 11.4 | 80.4 | 100 |
| 1978 | 3.0 | 5.9 | 12.2 | 78.9 | 100 |

Percent of Total Daily Circulation For
Largest 10%, 5%, 1% Firms

| Years | 10% | 5% | 1% |
|---|---|---|---|
| 1923 | 64.9 | 50.3 | 22.6 |
| 1933 | 67.4 | 52.8 | 23.2 |
| 1943 | 66.6 | 51.3 | 22.4 |
| 1948 | 67.9 | 52.5 | 22.8 |
| 1953 | 66.6 | 50.8 | 21.0 |
| 1958 | 66.5 | 50.2 | 19.2 |
| 1963 | 65.7 | 52.3 | 22.1 |
| 1968 | 64.8 | 50.3 | 20.7 |
| 1973 | 66.3 | 49.3 | 20.6 |
| 1978 | 61.3 | 47.9 | 19.8 |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

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Table II-A-6

Population of Cities With Daily Newspapers
1948-78

| Year | Number of Cities With Daily Newspaper | Mean Population of Cities with Daily Newspaper | Total Population of Cities with Daily Newspapers (million) | Percent of U.S. Population Living in Cities Served by Daily Newspapers |
|---|---|---|---|---|
| 1948 | 1,392 | 51,423 | 71.6 | 48.8 |
| 1958 | 1,447 | 59,054 | 85.4 | 48.8 |
| 1968 | 1,476 | 64,310 | 96.0 | 47.8 |
| 1978 | 1,536 | 63,116 | 96.9 | 45.1 |
| % Chg. 1948-78 | 10.3% | 22.7% | 35.3% | |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

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total of almost 97 million people living in cities that have newspaper firms. This represents about 45 percent of total U.S. population. This percentage has fallen slightly over the last 30 years.

One finds, in Table II-A-7, that a steadily rising ratio of aggregate circulation to U.S. population reached its peak in 1953 before beginning to decline. The index reflecting this ratio (defined as $\frac{\text{daily circulation}}{\text{U.S. Population}} \times 100$) rose from the 1923 figure of 27 to 34 by 1953. By 1973, the index had regressed to 29. Such an index may not precisely reflect the intensity of market penetration since the "reading" public is confined to mature and/or literate individuals, and because single copies of newspapers can be easily shared by family members.

To partially account for these factors, another index was calculated to reflect the ratio of newspapers sold to households. From 1923 to 1953, this index was stable at around 125, indicating that more newspapers were sold daily than there were households in the United States. After 1953, this index ratio began to fall precipitously, to 113 by 1963 and 97 ten years later. Although estimates for households in 1978 are not yet reliable enough to construct an index, indications are that the trend towards lower penetration has continued and perhaps even accelerated.

The trends in penetration illustrate an unmistakable change occurring in the 1950's. Many factors might account for this. One can not help but notice, however, that this phenomenon coincides with the development of television.

Table II-A-7

Comparison of Circulation to Population
1923-73

| | 1923 | 1933 | 1943 | 1953 | 1963 | 1973 | 23-73 % Change |
|---|---|---|---|---|---|---|---|
| Daily Circulation (millions) | 30 | 37 | 44 | 54 | 60 | 61 | 103% |
| Population (millions) | 112 | 126 | 137 | 160 | 189 | 210 | 88% |
| Households (millions) | 24 | 30 | 35 | 43 | 53 | 63 | 162% |
| Circ/Pop x100 | 27 | 29 | 32 | 34 | 32 | 29 | 7% |
| Circ/hslds. x100 | 125 | 123 | 126 | 126 | 113 | 97 | -22% |

Note: Household data are from preceding census year, i.e., 1920, etc.

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

## The Decline of Direct Newspapers Competition

The complexity of competition in media markets has been repeatedly emphasized. Even competition just among daily newspapers is not easy to characterize when one takes into account competition between dailies located in different sized cities. The nature of this intra-media competition will be described and illustrated in the discussion to come.

However, the face-to-face competition of newspapers of general appeal located in and identified with a single city is quite easy to identify. This is what is called direct newspaper competition, that is, independently owned and operated firms separately producing daily newspapers that actively compete with one another for reader attention and for all types of advertiser dollars.

Of the 1,536 U.S. cities that had daily newspapers at the end of 1977, only 35 or 2.2 percent had directly competitive dailies. However, this has not always been true. Today, less than a third of total daily circulation originates in multi-firm cities while in 1953, nearly 90% of U.S. daily circulation originated in directly competitive cities. Tables II-A-8, 9 and 10 illustrate the salient patterns.

Of course, the odds of finding competitive newspapers have always been greater in large cities than in small. Even in 1978, many of the major metropolitan centers--New York, Chicago, Los Angeles, and Philadelphia--contained competitive newspapers. At the other extreme, only a small fraction of the smallest newspaper cities had competitive dailies, even in 1923.

Table II-A-8

DECLINE IN MULTIPLE NEWSPAPER CITIES
IN THE UNITED STATES
1923-1978

| Year | Total Cities With Newspapers | Cities Having More Than One Paper | |
|---|---|---|---|
| | | Number | % of Total |
| 1923 | 1297 | 502 | 38.7 |
| 1933 | 1426 | 243 | 17.0 |
| 1943 | 1416 | 137 | 19.7 |
| 1948 | 1392 | 109 | 7.8 |
| 1953 | 1453 | 91 | 6.3 |
| 1958 | 1447 | 70 | 4.8 |
| 1963 | 1476 | 51 | 3.5 |
| 1968 | 1493 | 43 | 2.9 |
| 1973 | 1519 | 37 | 2.4 |
| 1978 | 1536 | 35 | 2.3 |

Sources: Rosse, Owen, Dertouzos, "Trends in the Daily Newspaper Industry," Studies in Industry Economics #57, Stanford University, 1975.

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Table II-A-9

Average Daily Circulation By
Number of Competing Firms

| Year | Mean Daily Circulation of Monopoly Papers | Mean Daily Circulation of Competing Papers |
|---|---|---|
| 1923 | 4,308 | 22,869 |
| 1933 | 8,077 | 48,123 |
| 1943 | 12,334 | 89,079 |
| 1953 | 18,278 | 134,977 |
| 1963 | 23,779 | 203,638 |
| 1973 | 28,033 | 235,313 |
| 1978 | 28,330 | 215,524 |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

1978 Editor & Publisher International Yearbook.

TABLE II-A-10

Competition In The Newspaper Industry

| Year | No. of Firms in Multi-Paper Cities | % of Firms in Multi-Paper Cities | % of Daily Papers Sold by Firms in Multi-Paper Cities |
|---|---|---|---|
| 1923 | 1,182 | 59.8 | 88.8 |
| 1933 | 562 | 32.2 | 73.9 |
| 1943 | 318 | 19.9 | 64.2 |
| 1948 | 253 | 16.5 | 62.0 |
| 1953 | 218 | 13.7 | 54.2 |
| 1958 | 168 | 10.9 | 51.7 |
| 1963 | 127 | 8.2 | 43.3 |
| 1968 | 97 | 6.3 | 36.1 |
| 1973 | 84 | 5.4 | 32.2 |
| 1978 | 78 | 4.9 | 28.3 |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

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Thus, two patterns have emerged. Firstly, larger cities are more likely to have directly competitive newspapers than are small cities. Secondly, the likelihood of face-to-face competition has declined substantially over at least the last five and a half decades. A method of succinctly describing these trends is by means of probit estimations.*

Probit estimation is like ordinary regression analysis in that it permits the use of multiple "explanatory" variables to improve its descriptive power. Thus, in the analysis reported in Table II-A-13, newspaper circulation size was a crucial describing variable. Publication schedule of the newspaper in question was a second variable of interest. The third variable represented a simple time trend. The available data set did not permit a richer set of "explanatory" variables, butwere sufficient for purposes of description.

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*For a more complete discussion of the probit estimates and methodology, see James N. Rosse, "The Evolution of One-Newspaper Cities," Discussion Draft for FTC Media Symposium.

Table II-A-11

Population of Cities by
Number of Competing Firms
1948-78

| | Mean Population of Cities | | Total Population of Cities (millions) | |
|---|---|---|---|---|
| | With Monopoly Firms | With Competing Firms | With Monopoly Firms | With Competing Firms |
| 1948 | 25,847 | 352,472 | 33.2 | 38.4 |
| 1958 | 35,937 | 513,797 | 49.5 | 35.9 |
| 1968 | 45,711 | 691,475 | 66.3 | 29.7 |
| 1978 | 47,159 | 725,369 | 70.8 | 26.1 |
| % Change 1948-78 | 82% | 106 | 113% | -32% |

| | % U.S. Population Living In Multi-paper Cities |
|---|---|
| 1948 | 26% |
| 1958 | 21% |
| 1968 | 15% |
| 1978 | 12% |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos "Trends in the Daily Newspaper Industry 1923-1973."

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Table II-A-12

Percent of Firms Located In
Monopoly Cities by Population Size
1948, 58, 68

| City Population (000) | Year 1948 | 1958 | 1968 | 1978 |
|---|---|---|---|---|
| 0 - 10 | 96.7 | 98.0 | 100.0 | 100.0 |
| 10 - 50 | 92.6 | 96.7 | 98.2 | 98.8 |
| 50 - 100 | 76.8 | 86.4 | 94.8 | 95.3 |
| 100 - 500 | 37.2 | 66.4 | 78.2 | 84.0 |
| 500 - 1000 | 0 | 9.1 | 38.2 | 50.0 |
| 1000 + | 0 | 3.6 | 13.6 | 4.3 |

E.g.: In 1948, 96.7% of newspaper cities under 10,000 population were "monopoly" cities.

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos "Trends in the Daily Newspaper Industry 1923-1973."

1978 Editor & Publisher International Yearbook.

TABLE II-A-13

PROBIT ESTIMATES:
ESTIMATED PROBABILITY THAT A WEEKDAY* NEWSPAPER HAS FACE-TO-FACE COMPETITION BY SIZE OF DAILY CIRCULATION, 1925-1975

| Year of Estimate | Daily Circulation | | | | |
|---|---|---|---|---|---|
| | 5,000 | 10,000 | 50,000 | 100,000 | 500,000 |
| 1925 | 40% | 55% | 85% | 92% | 99% |
| 1935 | 21 | 35 | 71 | 83 | 97 |
| 1945 | 9 | 18 | 53 | 69 | 93 |
| 1955 | 3 | 7 | 34 | 52 | 86 |
| 1965 | 1 | 2 | 19 | 34 | 75 |
| 1975 | 0 | 1 | 9 | 19 | 60 |

Source: Calculated using probit estimates reported in "A description of Competition in the Newspaper Industry: A Probability Analysis," by James N. Dertouzos, Studies in Industry Economics Discussion Paper #68, Department of Economics, Stanford University.

*Weekday means five or six weekday editions with no Sunday edition.

A representative weekday newspaper with a circulation of 5000 in 1925 had a 40 percent chance of facing direct competition in 1925. For the same size firm, the estimated probability became zero for 1975. In 1925, a firm circulating 500,000 papers had a 99 percent chance of having face-to-face competition. By 1975, this likelihood fell to 60 percent.

Economies of scale have played a pivotal role in the dominance of one-newspaper towns. It is a fact of newspaper technology that, all things equal, a larger firm is able to produce output (in terms of circulation and/or space) at lower per unit costs than a smaller establishment.

There are three sources of economies of scale. To begin with, expenses incurred in creating and composing content are imbedded in the cost of the initial newspaper. Thus, the average cost attributable to "first-copy" expenses falls as circulation rises. Also, reproduction costs decline as the number of copies increases. Furthermore, for given levels of circulation, the cost per unit of published space declines as the quantity of space increases. Finally, there exist economies of scale in the distribution process. Certainly, the distribution costs of one newspaper serving a given number of readers in a particular area are lower per subscriber than are the costs of multiple firms delivering to the same total number of readers.

Thus, economic competition between two similar newspapers seeking to attract the same audience cannot survive in the long run.

Eventually one or the other will obtain a size advantage sufficient to allow underpricing in advertising markets. However, if newspapers are able to isolate a market segment and differentiate the newspaper product in order to appeal to that segment, survival is probable. As we have seen, this segmentation is usually defined by market location. Thus, we find numerous firms, each selling a product oriented to the particular city. Of course, if a city's population is large and diverse enough, there is potential for segmentation to occur within a single geographic area. However, the historical record demonstrates that, even in the largest cities, such segmentation has been quite unstable and the American press remains a local press.

Newspaper Chains

The ownership structure of the daily newspaper industry has been undergoing rather dramatic changes during the twentieth century. Once dominated by local, family enterprises, newspapers are becoming subsidiaries of larger corporate organizations. Table II-A-14 documents the trend. In 1910, there existed 13 chains owning a total of 62 daily newspapers. Thus, less than three percent of all U.S. dailies were associated with groups. By 1930, 55 chains owned 311 dailies which had combined circulations amounting to over 43 percent of total U.S. daily circulation. By 1960, over 30 percent of all dailies were chained-owned. In 1976, nearly 60 percent of all daily newspapers were affiliated with chains. These dailies sold over 70 percent of total U.S. circulation.

This tendency towards group ownership may have resulted in a decline of independent newspaper "voices." Although the degree of newspaper autonomy varies significantly from group to group, a corporation's central management inevitably exerts some influence over the individual enterprises. Thus, one finds that there are fewer than 900 independent daily newspaper voices left in the U.S. today. This represents a 59 percent decline since 1910. The trend is expected to continue in the years ahead.

Although the approximately 167 chains collectively sell over 43 million newspapers daily, none individually dominate the industry. Table II-A-15 indicates the nature of the size distribution of newspaper chains for 1977. Knight-Ridder had the largest combined circulation of nearly

Table II-A-14

Chain Ownership, U.S. Daily Newspapers, 1910 to 1976

| Year | Number of Chains | Number[a] of Chain-owned Dalies | Total Number of Dailies | % Chain-owned | % of Daily Circulation of Chain-owned Dailies | Number[b] of Independent Voices |
|---|---|---|---|---|---|---|
| 1910 | 13 | 62 | 2,202 | 2.8% | - | 2,153 |
| 1930 | 55 | 311 | 1,942 | 16.0 | 43.4% | 1,686 |
| 1940 | 60 | 319 | 1,878 | 17.0 | - | 1,619 |
| 1953 | 95 | 485 | 1,785 | 27.0 | 45.3 | 1,395 |
| 1960 | 109 | 560 | 1,763 | 31.8 | 46.1 | 1,312 |
| 1970 | 157 | 879 | 1,748 | 50.3 | 63.0 | 1,026 |
| 1976 | 167 | 1,047 | 1,762 | 59.4 | 71.0 | 882 |

[a] The totals reflect dailies, not separate establishments. Thus a single establishment publishing a morning and evening edition is counted as two dailies.

[b] This total reflects the number of different owners = number of chains plus the number of non-chain owned dailies

Sources: Editor and Publisher, July 9, 1977.

Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends.

Table II-A-15

Major Newspaper Groups, 1977

| Group | No. of[a] Dailies | % of U.S. Total | Daily (000) Circulation | % of U.S. Total |
|---|---|---|---|---|
| Knight-Ridder | 34 | 1.9% | 3,681 | 6.0% |
| Newhouse | 29 | 1.6% | 3,204 | 5.3 |
| Tribune (Chicago) | 6 | .3 | 3,099 | 5.1 |
| Gannett | 73 | 4.1 | 2,772 | 4.5 |
| Scripps-Howard | 17 | 1.0 | 1,895 | 3.1 |
| Times-Mirror | 4 | .2 | 1,880 | 3.1 |
| Dow-Jones[b] | 14 | .8 | 1,783 | 2.9 |
| Hearst | 7 | .4 | 1,436 | 2.4 |
| Cox | 17 | 1.0 | 1,179 | 1.9 |
| New York Times | 10 | .6 | 975 | 1.6 |
| Capital Cities | 4 | .2 | 950 | 1.6 |
| Tompson | 57 | 3.2 | 935 | 1.5 |
| TOTAL 12 GROUPS | 272 | 15% | 23.9 million | 39% |
| 155 OTHER GROUPS | 775 | 44% | 19.7 million | 32% |
| ALL GROUPS | 1,047 | 59% | 43.6 million | 71% |

a) Total reflects the number of editions, thus, a firm selling both morning and evening editions is counted as two dailies.

b) Includes the Wall Street Journal which is not, strictly speaking, a general interest daily.

Source: Editor and Publisher, July 9, 1977.

Table II-A-16
Trends in Selected
Newspaper Groups
1946-1976

| Group | 1946 Firms[a] | 1946 Circulation (000) | 1956 Firms | 1956 Circulation (000) | 1966 Firms | 1966 Circulation (000) | 1976 Firms | 1976 Circulation (000) |
|---|---|---|---|---|---|---|---|---|
| Gannett | 14 | 622 | 15 | 781 | 24 | 1,176 | 61 | 2,772 |
| Knight | 4 | 1,171 | 4 | 1,154 | 6 | 1,349 | 23 | 3,681 |
| Ridder | 6 | 557 | 8 | 887 | 10 | 1,098 | | |
| Hearst | 13 | 5,335 | 11 | 4,618 | 8 | 2,704 | 7 | 1,436 |
| Scripps-Howard | 17 | 2,252 | 17 | 2,803 | 15 | 2,927 | 15 | 1,895 |
| Newhouse | 4 | 491 | 11 | 1,816 | 16 | 3,021 | 22 | 3,204 |

Percent of Total U.S. Daily[b] Circulation

| Group | 1946 | 1956 | 1966 | 1976 |
|---|---|---|---|---|
| Gannett | 1.2% | 1.4% | 1.9% | 4.6% |
| Knight | 2.3 | 2.0 | 2.2 | 6.2 |
| Ridder | 1.1 | 1.6 | 1.8 | |
| Hearst | 10.4 | 8.1 | 4.4 | 2.4 |
| Scripps-Howard | 4.4 | 4.9 | 4.8 | 3.2 |
| Newhouse | 1.0 | 3.2 | 5.0 | 5.4 |

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[a] Defined as separate newspaper estimates. A daily newspaper firm publishing evening and morning editions in the same city is one establishment.

[b] Circulation of "general" interest daily newspapers.

Source: Editor and Publisher International Yearbook 1947, 57, 67, 77.

3.7 million papers daily. However, this represents only 6 percent of total U.S. circulation. Gannet owned 73 dailies, the most of any group, with a total circulation of 2.8 million. The 12 largest groups own 272 dailies with combined circulation of 24 million, about 40 percent of the U.S. total.

Table II-A-16 focuses on the trends in size for a sample of the more important groups. In 1946, Hearst's 13 newspaper establishments had a combined circulation of 5.3 million, over 10 percent of the U.S. total. Thiry years later, the Hearst chain consisted of 7 firms selling 1.4 million newspapers. The continuous erosion of the metropolitan markets has contributed to the comparatively small importance of that group today. The recent merger of Knight and Ridder has made that group predominent in terms of total circulation. Newhouse showed brisk expansion in the fifties and sixties. Still, only 5.4 percent of total U.S. circulation was sold by this chain in 1976. Scripps-Howard has suffered the failure of several of its metropolitan newspapers and now controls dailies with combined circulations of under two million.

Thus, one finds that despite the increased collective importance of newspaper chains, they remain individually less significant. No chain has the relative strength that the Hearst papers once did. Of course, the chain's potential influence during that time was mitigated by the existence of direct newspaper competition in each city. In contrast, today's group-owned firms are usually the only newspaper in a town. As an example, none of Gannett's 60 or 70 newspapers face direct competition.*

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* Four Gannett firms are part of joint operating agreements which, to some degree, maintain editorial independence. They cannot be considered separate economic entities, however.

However, one must keep in mind that even Gannett's circulation amounts to only four or five percent of the U.S. total and, more importantly, these readers have access to a plethora of alternative media sources.

The Metropolitan Press

Big-city newspapers must be considered to be among the more influential media in America today. Although their economic structure and dependence on advertising markets makes them typical of newspapers in general, their relative size and location in the nation's centers of political, economic, and media activity gives them a pivotal role in the flow of information and ideas. Thus, they deserve special attention.

Table II-A-17 allows us to discern industry trends disaggregated by city size. We find that newspapers located in larger cities are faring poorly in comparison to their suburban counterparts. Although the industry has experienced overall growth, the big-city newspapers have suffered declines over the last 30 years. In particular, no firms located in cities of greater than one million in population have exhibited circulation decreases of over 26 percent. In addition, there has been an equivalent decline in the number of firms located in these cities. For cities between 500 thousand and one million in population the drops in total circulation and number of firms were 12 and 35 percent respectively.

There are a number of possible explanations for this phenomenon. Firstly, the relative decline coincides with the introduction of television. Metropolitan dailies, with wider areas of distribution and the concomitant emphasis on features, news, and advertising of more general interest, were comparatively more susceptible than small-town newspapers

Table II-A-17

Daily Circulation by City Size 1948-78

| Year | (000) City Size | Total | < 10 | 10 - 99 | 100 - 500 | 500 - 1000 | > 1000 |
|---|---|---|---|---|---|---|---|
| 1948 | | 51,345 | 1,676 | 13,280 | 13,908 | 8,533 | 13,947 |
| 1958 | | 57,209 | 1,753 | 15,594 | 16,594 | 10,255 | 13,013 |
| 1968 | | 60,817 | 1,741 | 18,113 | 17,957 | 11,052 | 11,955 |
| 1978 | | 59,363 | 1,943 | 20,698 | 18,959 | 7,540 | 10,223 |
| % Change 1948-78 | | 15.6% | 15.9% | 55.9% | 36.3% | -11.6% | -26.7% |
| | | | | Number of Firms | | | |
| 1948 | | 1,536 | 451 | 881 | 137 | 37 | 30 |
| 1958 | | 1,545 | 409 | 927 | 137 | 44 | 28 |
| 1968 | | 1,547 | 365 | 975 | 151 | 34 | 22 |
| 1978 | | 1,580 | 340 | 1,043 | 150 | 24 | 23 |
| % Change 1948-78 | | 2.9% | -24.6% | 18.4% | 9.5% | -35.1% | -23.3% |

Sources: J. N. Rosse, B. M. Owen, J. Dertouzos, "Trends in the Daily Newspaper Industry 1923-1973."

1978 Editor & Publisher International Yearbook.

to the increased competition from electronic media. In addition, larger newspapers may have been more vulnerable to imput price changes. We have already noted, for example, the greater importance of newsprint in the operating budget of big newspapers. Also, labor unions have been traditionally stronger in the metropolitan areas. Regardless of whether or not this is relevant, one does observe that wage scales are significantly higher in large newspaper companies.

As will be detailed in the context of a New York City media market study to follow, changing demographics played an enormous role. Large cities are less the retail and industrial hubs that they once were. The flux of people moving to the suburbs and the associated urban decay has had severe detrimental effect on the economic environment of the metropolitan press.

Table II-A-18 partially abstracts from demographic changes which had differential impacts on suburban and urban newspaper firms. Aggregate populations and circulations are tabulated by city-size quartiles for 1948 and 1978. We discover, interestingly enough, that the penetration of circulation relative to city population was once greater in the larger cities. Since 1948, however, the reverse has become true. In 1978, the ratio of circulation to city population was .59 for the largest 25 percent of cities with newspaper firms. For the predominantly suburban lower quartile, the penetration was .84. If the declining aggregate penetration ratios reflect the influence of TV, then surely the above comparison strongly suggests that the impact was borne by the metropolitan newspapers.

Of course, correlation does not imply causality. We have previously noted the trend away from direct competition. It could very well be that the failure of numerous metropolitan newspapers since 1950 was the primary factor of importance. That is, the greater potential for audience segmentation merely delayed the inevitable outcome of economies of scale.

Table II-A-18

Circulation and Population:
Breakdown of Data According to the Size Distribution
of Cities with Daily Newspapers, by Quartiles 1948, 1978

| 1978 | Smallest 25% | Second Quartile | Third Quartile | Largest 25% |
|---|---|---|---|---|
| Percent of Circulation: | | | | |
| Total Daily | 3.8% | 7.0% | 12.6% | 76.5% |
| morning | .6 | 1.8 | 5.9 | 91.7 |
| evening | 6.3 | 11.0 | 17.6 | 65.0 |
| sunday | .7 | 2.6 | 7.9 | 88.8 |
| Percent of Population of Cities with Daily Newspapers | 2.8 | 6.0 | 12.4 | 78.8 |
| (000) | | | | |
| Total Daily Circulation | 2,270.3 | 4,183.4 | 7,499.3 | 45,411.2 |
| morning | 135.0 | 439.0 | 1,398.5 | 21,932.5 |
| evening | 2,135.4 | 3,703.1 | 5,949.2 | 21,936.0 |
| sunday | 355.8 | 1,360.7 | 4,101.3 | 46,320.5 |
| Ratio Daily Circulation to Population of Cities | .84 | .72 | .63 | .59 |
| 1948 | | | | |
| Percent of Circulation | | | | |
| Total Daily | 2.4% | 4.0% | 7.6% | 86.0% |
| morning | .3 | .8 | 3.6 | 95.3 |
| evening | 3.8 | 6.2 | 10.4 | 79.6 |
| sunday | .4 | .8 | 3.0 | 95.8 |

| (1948, cont.) | | | | |
|---|---|---|---|---|
| Percent of Population of Cities with Daily Newspapers | 2.8% | 5.5% | 10.4% | 81.3% |
| (000) | | | | |
| Total Daily Circulation | 1,222.3 | 2,051.5 | 3,925.7 | 44,160.4 |
| morning | 59.6 | 171.3 | 732.5 | 18,007.2 |
| evening | 1,162.7 | 1,880.2 | 3,169.4 | 24,252.8 |
| sunday | 155.3 | 336.8 | 1,331.8 | 42,333.3 |
| Ratio Daily Circulation to Population of Cities | .60 | .52 | .53 | .76 |
| Percent Change 1948-78 | | | | |
| daily | 85.7% | 103.9% | 91.0% | 2.8% |
| morning | 126.5 | 149.6 | 90.9 | 21.8 |
| evening | 83.6 | 97.0 | 87.7 | -9.6 |
| sunday | 129.1 | 304.0 | 208.0 | 9.4 |

Source: Editor & Publisher International Yearbook, 1948, 1978

B. Over-the-Air Television

Over-the-air television was approved for commercial use by the FCC in 1941 and following the Second World War was rapidly adopted by American families (see Table II-B-1). Growth in television ownership was especially rapid during the 1950's. In 1950 just nine percent of U.S. households owned a television. By 1960 this figure had climbed to 87.1, and in 1977 there were televisions in 97.9 percent of American homes. Accompanying the increase in television set ownership has been a more gradual rise in viewing hours per family reaching a peak about 1970. Average weekly household viewing time was estimated at slightly over 45 hours in 1975, down about half an hour from the 1970 peak (see Table II-B-2).

Acceptance of television as an advertising medium has parallelled its adoption as a source of entertainment. Spending on television advertising increased from $171 million and three percent of national advertising expenditures in 1950 to over $5 billion and twenty percent in 1977 (see Table I-C-1).

The growth of television advertising has been accompanied by an increase in total advertising expenditures and a redistribution of advertising dollars among media. As might be expected radio has suffered most from television competition. Table I-C-1 reveals that radio advertising sales declined in the mid-1950's as Americans adopted television. Other media have also been affected although the effect is generally not so obvious as with radio. Television is often blamed for the demise of the general

TABLE II-B-1
Number of Percentage of U.S. Homes with Television Recievers, 1946-1977

| Year | Homes with Television Receivers | Percent of All U.S. Homes | Percent with Two or More Receivers | Percent with UHF Receivers | Percent with Color Receivers |
|---|---|---|---|---|---|
| 1946 | 8,000 | 0.02% | -- | -- | -- |
| 1947 | 14,000 | .04 | -- | -- | -- |
| 1948 | 172,000 | .4 | 1% | -- | -- |
| 1949 | 940,000 | 9.0 | 1 | -- | -- |
| 1950 | 3,875,000 | 2.3 | 1 | -- | -- |
| 1951 | 10,320,000 | 23.5 | 2 | -- | -- |
| 1952 | 15,300,000 | 34.2 | 2 | -- | -- |
| 1953 | 20,400,000 | 44.7 | 3 | -- | -- |
| 1954 | 26,000,000 | 55.7 | 3 | -- | -- |
| 1955 | 30,700,000 | 64.5 | 3 | -- | .02% |
| 1956 | 34,900,000 | 71.8 | 5 | -- | .05 |
| 1957 | 38,900,000 | 78.6 | 6 | 9.2% | .2 |
| 1958 | 41,925,000 | 83.2 | 8 | 8.1 | .4 |
| 1959 | 43,950,000 | 85.9 | 10 | 8.0 | .6 |
| 1960 | 45,750,000 | 87.1 | 13 | 7.0 | .7 |
| 1961 | 47,200,000 | 88.8 | 13 | 7.1 | .9 |
| 1962 | 48,855,000 | 90.0 | 14 | 7.3 | 1.2 |
| 1963 | 50,300,000 | 91.3 | 16 | 9.6 | 1.9 |
| 1964 | 51,600,000 | 92.3 | 19 | 15.8 | 3.1 |
| 1965 | 52,700,000 | 92.6 | 22 | 27.5 | 5.3 |
| 1966 | 53,800,000 | 93.0 | 25 | 38.0 | 9.7 |
| 1967 | 55,130,000 | 93.6 | 28 | 47.5 | 16.3 |
| 1968 | 56,670,000 | 94.6 | 29 | 57.0 | 24.2 |
| 1969 | 58,250,000 | 95.0 | 33 | 66.0 | 32.0 |
| 1970 | 59,700,000 | 95.2 | 34 | 73.0 | 39.2 |
| 1971 | 61,600,000 | 95.5 | 36 | 80.0 | 45.1 |
| 1972 | 63,500,000 | 95.8 | 38 | 81.0 | 52.8 |
| 1973 | 65,600,000 | 96.0 | 41 | 86.0 | 60.1 |
| 1974 | 66,800,000 | 96.1 | 42 | 89.0 | 67.3 |
| 1975 | 68,500,000 | 97.1 | 43 | 91.0 | 70.8 |
| 1976 | 70,500,000 | 97.3 | 45 | N/A | 73.3 |
| 1977 | 71,500,000 | 97.9 | 47 | 92.0 | 76.0 |

Source: Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, (New York, 1978), p. 372.

TABLE II-B-2
**Average Weekly Hours of Television Use by U.S. Population, by Household Size, Number of Children, and Other Characteristics, 1960-1975**

| Characteristics of Audience | Average Viewing Hours per Week 1960 | 1965 | 1970 | 1975 |
|---|---|---|---|---|
| Household Size | | | | |
| 1 to 2 members | 33:01 | 32:50 | 36:31 | 37:26 |
| 3 to 4 members | 39:20 | 45:13 | 49:03 | 50:36 |
| 5 or more members | 49:49 | 52:09 | 59:03 | 56:46 |
| Children under 18 years | | | | |
| None | N/A | 34:05 | 39:00 | 38:41 |
| 1 or more | N/A | 49:08 | 55:46 | 53:12 |
| Income Level | | | | |
| $5,000 or less[1] | 42:42 | 38:26 | 42:55 | 42:17 |
| $5,000 to $15,000 | 44:36 | 44:27 | 45:35 | 48:03 |
| $15,000 or more | 41:12 | 40:44 | 43:20 | 46:52 |
| Education Level | | | | |
| Grade School | N/A | 41:1[illegible] | 48:14 | 46:53 |
| High School | N/A | 43:03 | 49:50 | 48:21 |
| 1 or more years of College | N/A | 39:33 | 40:22 | 40:27 |
| National Average Viewing Hours | 40:02 | 41:52 | 45:41 | 45:07 |

[1]Income levels for 1975 were changed to $10,000 or less, $10,000 to $15,000, and $15,000 or more.

Sources: Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, (New York, 1978), p. 374. Original source was Nielsen Television Index, A. C. Nielsen Company.

interest, mass circulation magazines such as LIFE and LOOK.

A medium that has grown so rapidly and become so pervasive as television must necessarily stimulate considerable debate over its consequences, and television has. Social commentators have voiced considerable concern over the content of television programming and its effects on viewers, especially children. TV critics have expressed fear of the opinion-molding power of television and deplored the concentration of that power in a few hands. Some economists argue that television advertising is a source of market power in consumer goods industries. Although it is generally ignored, the discussion of these and other social issues relating to television can often be improved by an understanding of the organization of the television industry itself. As a prelude to discussion in greater depth, this section provides an overview of the economic organization of the over-the-air television industry, looking at the causes of current structure and behavior and the relationship between structure and issues mentioned above.

Industry Participants

The structure of the television industry can be described in terms of the characteristics of and relationships between viewers, advertisers, stations, networks, independent program suppliers and regulatory agencies, the principal participants in the industry. With the exception of regulatory agencies the classes of agents mentioned above are all composed of private actors. It is the behavior of and interaction between these private actors with which we will be concerned initially. The impact of

regulatory agencies will be discussed later.

The television industry is organized for the production of audiences (viewers) for sale to advertisers. Both stations and networks sell advertising and compete for audiences by maximizing the popularity of their program offerings. Some programming is produced by the stations and networks but most is purchased from independent suppliers of programming.

Most, but not all, television stations are affiliated with one of the three national networks. Of 694 commercial stations operating in 1975, 608 were network affiliates*. Affiliate status implies a concentractual agreement between a station and a network. Since the relative bargaining strengths of stations and networks vary from market to market, the terms of affiliation will also vary, but a feature common to all agreements is that the network pays the station a fee, or clearance payment, to broadcast network programs. Noll, Peck and McGowan estimated that from 1965 through 1969 networks returned an average of 20.3 percent of revenues from network advertising to their affiliates.** In addition, a portion of the time allocated to commercial messages in network programming is given to the stations for sale to local and national advertisers.

Essentially, networks operate as middlemen between their affiliages stations and suppliers of programming by buying programs and offering them in an organized package to their affiliates. The value of a network's

* Sterling, C. H. and T. R. Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, (New York: Praeger Publishers, 1978), p. 54.

** Noll, R. G., M. J. Peck, and J. J. McGowan, Economic Aspects of Television Regulation, (Washington, D.C.: The Brookings Institution, 1973), p. 62.

commercial time increases with the number of stations clearing its programming. Since the probability that an affiliate will carry a network program increases with the popularity of the program, network profits are dependent upon the ability of the networks to supply programming with greater audience appeal than programming which can be purchased by stations from independent suppliers. This means that networks must be able to offer the owners of popular programs a return higher than the returns expected from selling their programs in the syndication market.

The existence of networks as highly profitable intermediaries is explained by economies realized in the procurement of programming and economies in the selling of national advertising and by the public good character of television programs.

By dealing with a network a national advertiser is able to avoid most of the costs of negotiating directly with enough individual stations to acquire nationwide exposure. Similarly, transaction costs are reduced when suppliers of programming can negotiate with networks instead of stations.

The concept of a public good, as used by economists, was developed in some detail in the first section of this paper. Briefly restated, a public good is a product or service for which the cost of production is independent of the number of persons consuming it. A television program, once produced, is such a good. Once it has been produced, production costs are independent of the number of people who watch it. Thus a national audience minimizes per viewer production costs and the availability of nationwide distribution gives networks a cost advantage over independent distributors of programming who generally reach a much smaller audience.

Market Structure

The networking and broadcasting markets are obviously oligopolistic. There are only three national networks and in most television markets there are only three stations, although stations from outside the area may also be received. The fact that most TV markets are three station markets and that national television networks also number three is not a coincidence. The economies associated with networking, discussed above, and FCC policy favoring localism are largely responsible.

There are twelve VHF channels available for commercial television. The number of these which can be assigned to any city is limited by the number of channels assigned to neighboring metropolitan areas. To avoid interference in areas of signal overlap different channels must be assigned to neighboring broadcast regions. Under the current system of channel allocation, most cities must be limited to three VHF stations to avoid signal interference. If broadcast areas were made sufficiently large, the number of zones of signal overlap would be reduced and more channels would be available to viewers in each broadcast area. Since the cost per viewer of network programming is minimized when programs are presented to a national audience, only three networks are commercially viable. If broadcast areas were made sufficiently large, the number of zones of signal overlap would be reduced, making more channels available to viewers and increasing the number of possible networks.

In allocating the VHF frequencies available to television the FCC originally had a choice of establishing either a system with a small number of powerful regional stations or establishing a system with a larger number of weak local stations. Although the regional system

would have provided most viewers with more channel choices, and thus would have increased the viable number of networks, the local station option was selected. Selection of the local station plan was consistent with prior FCC policy in the allocation of the radio spectrum. In the case of both radio and television it was felt that local stations would better serve the tastes and needs of local audiences. For television the local service goals of the FCC have clearly not been met. Stations, both affiliates and independents, broadcast little local programming (see Table II-B-3). Of the local programming that is broadcast it is impossible to separate the programming originated in response to local demand from programming that is a response to pressure to provide programs that serve the public interest as defined by the FCC.

It was hoped that the problems of limited competition and reduced program choice inherent in a system of local VHF stations would gradually diminish with increased use of the seventy UHF channels made available in 1952. Due to the handicaps of UHF broadcasting these hopes have not been realized. Initially few television receivers were equipped to receive UHF signals and the quality of UHF reception was inferior to that of VHF. The first handicap has been largely overcome, in 1977 ninety-two percent of all U.S. households owned television sets with UHF receivers, see Table II-B-1, but the quality problem has persisted and has limited the development of UHF broadcasting so that additional networks are still not feasible.

The UHF handicap is apparent in the figures of Table II-B-4. Until 1975 UHF stations as a group lost money. These tables also revel that the UHF profit picture has improved dramatically. Undoubtedly this improvement is due in part to the growth of cable systems which improve the picture quality and reachable audience of UHF relative to VHF stations.

TABLE II-B-3
A Comparison of Programming Formats of Network-Affiliate and Independent Television Stations in U.S., by Percentage of Total Airtime, 1954-1972

| | Programming Format and Source | | | | | |
|---|---|---|---|---|---|---|
| | Made-for-TV Films | Theatrical Films | Syndicated Videotaped Programs | Local Live Programs | Local Videotaped Programs | Network Programs |
| **Network-Affiliate Stations** | | | | | | |
| 1954 | 12% | 17% | -- | 21% | -- | 50% |
| 1956 | 14 | 15 | -- | 14 | -- | 56 |
| 1958 | 13 | 16 | -- | 13 | -- | 58 |
| 1960 | 13 | 13 | .3% | 11 | 1 | 63 |
| 1962 | 12 | 11 | 1 | 12 | 2 | 63 |
| 1964 | 11 | 10 | 2 | 11 | 3 | 64 |
| 1966 | 9 | 11 | 3 | 10 | 3 | 64 |
| 1968 | 7 | 8 | 7 | 10 | 2 | 63 |
| 1970 | 7 | 9 | 2 | 10 | 3 | 66 |
| 1972 | 7 | 8 | 7 | 10 | 2 | 63 |
| **Independent Stations** | | | | | | |
| 1954 | 21 | 31 | -- | 47 | -- | -- |
| 1956 | 20 | 48 | -- | 23 | -- | -- |
| 1958 | 24 | 47 | -- | 29 | -- | -- |
| 1960 | 36 | 28 | 4 | 31 | 2 | -- |
| 1962 | 36 | 26 | 5 | 28 | 9 | -- |
| 1964 | 43 | 26 | 5 | 23 | 4 | -- |
| 1966 | 25 | 33 | 8 | 28 | 9 | -- |
| 1968 | 27 | 29 | 11 | 20 | 8 | -- |
| 1970 | 31 | 35 | 15 | 14 | 5 | -- |
| 1972 | 23 | 24 | 20 | 18 | 8 | 4 |

Source: Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, (New York, 1978), p. 308.

TABLE II-B-4

Number and Percentage of Stations Reporting
Profit or Loss, 1973, 1975, 1977

| | Year | Total | | Network Affiliated | | Independent | |
|---|---|---|---|---|---|---|---|
| | | VHF | UHF | VHF | UHF | VHF | UHF |
| Total number of stations reporting | 1973 | 457 | 165 | 425 | 112 | 32 | 53 |
| | 1975 | 462 | 166 | 432 | 114 | 30 | 52 |
| | 1977 | 458 | 173 | 429 | 117 | 29 | 56 |
| Number of stations reporting profits | 1973 | 395 | 77 | 374 | 61 | 21 | 16 |
| | 1975 | 398 | 86 | 376 | 59 | 22 | 27 |
| | 1977 | 422 | 127 | 397 | 89 | 25 | 38 |
| Profitable stations as percent of total | 1973 | 86.4 | 46.7 | 88.0 | 54.5 | 65.6 | 30.2 |
| | 1975 | 86.1 | 51.8 | 87.0 | 51.8 | 73.3 | 51.9 |
| | 1977 | 92.1 | 73.4 | 92.5 | 76.1 | 86.2 | 67.9 |

Source: FCC data.

The market for television programming, in contrast to the oligopolistic broadcasting and networking markets, is best described as monopolistically competitive. Firms produce differentiated products, entry and exit from the market is easy and frequent, and while several firms may be identified as "major" producers, their shares fluctuate widely and a large number of smaller firms are constantly entering and leaving the market.

If the program market is separated into a market for network suppliers and a market for syndicated programming, the market for network programming is seen to be the most competitive. Economies of scale in distribution mentioned earlier in the discussion of networking favor the development of a more concentrated structure in the syndication market since program suppliers must handle station negotiations and distribution themselves.

In recent years syndicated program sales have been dominated by off-network reruns and movies. The increased usage of off-network reruns in particular has hurt producers of original syndicated programming. Reruns have proven audience appeal and have only to generate enough revenue to meet residuals (rerun fees paid to the talent employed in original production) and distribution costs while producers of original syndicated programming must meet distribution costs and the full cost of production. To meet increased competition from reruns producers of original syndicated programs have reduced production costs, and thereby possibly quality. Even so the share of original programming in the syndication market has been falling.

Diversity

The discussion of network and broadcasting market structure is relevant to the analysis of the issue of diversity in program choice.

In an advertiser supported system stations and networks generally attempt to maximize audience size. Programs appealing to mass audiences will be aired as long as a broadcaster's expected share of the mass audience is larger than the audience which could be achieved by special interest programming. Increasing the number of competing stations decreases a given station's potential share of a mass audience and thus increases the relative attractiveness of programming catering to minority tastes. Thus the FTC decision to create a system of small local stations, since it limited the number of networks, was implicitly a decision unfavorable to minority programming.

With maximization of audience size as a primary objective an advertiser supported system ignores the intensity of viewer preferences. A minority that values highly a specialized program will be ignored as long as the expected share of the mass audience is larger, even if the mass programming serves as nothing more than a diversion for insomniacs. A system with pay TV would at least partially solve the problem of ignored minority tastes since broadcasters could supply minority oriented programming as long as the revenue generated by selling programming to interested viewers was enough to cover the costs

Station Ownership

FCC rules allow one financial interest to own a maximum of seven television stations, no more than five of which may be VHF. The three national networks have long owned the allowed maximum of five VHF stations apiece, the stations being located in the largest TV markets.

In addition non-network interests have been developing multiple station groups with the result that the number and percentage of stations that are group-owned has been increasing (see Table II-B-5 ). It is also clear that group owned stations, on the average, serve much larger audiences than nongroup stations (see Table II-B-6). This is due primarily to the fact that group owned stations are concentrated in the larger markets. The growing importance of station groups raises several questions of public policy. The fear has been expressed that group ownership confers on group-owned stations a competitive advantage over non-group stations, the source of the advantage being enhanced bargaining power with networks. Group ownership is alleged to make acquisition of network affiliation easier and to improve the terms of affiliation agreements for group-owned stations.

Two studies of group ownership have argued that fears of group power are unfounded. Studies reported by Levin* and Cherington, Hirsch and Brandwein** have both found group-owned stations to be no more profitable than singles. In addition Cherington, Hirsch and Brandwein report that the incidence of network affiliation is about the same for group and non-group stations and that stations belonging to a group are almost never all affiliated with the same network.

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*Levin, H. J., "Competition, Diversity, and the Television Group Ownership Rule," Columbia Law Review, vol. 70 (May 1970), pp. 791-835.

**Cherington, P. W., L.V. Hirsch, and R. Brandwein, Television Station Ownership: A Case Study of Federal Agency Regulation, (New York: Hastings House, 1971).

TABLE II-B-5
Number and Percentage of Group-Owned Television Stations in U.S., 1948-1976

| Year | Number of Groups | Number of Group-Owned Stations | Total Commercial Stations | % of Group Control |
|---|---|---|---|---|
| 1948 | 3 | 6 | 16 | 37.5% |
| 1949 | 10 | 24 | 51 | 47.1 |
| 1950 | 17 | 52 | 98 | 53.1 |
| 1951 | 19 | 53 | 107 | 49.5 |
| 1952 | 19 | 53 | 108 | 49.1 |
| 1953 | 38 | 104 | 126 | 82.5 |
| 1954 | 48 | 126 | 354 | 35.6 |
| 1955 | 62 | 165 | 411 | 40.1 |
| 1956 | 60 | 173 | 441 | 39.2 |
| 1957 | 65 | 192 | 471 | 40.8 |
| 1958 | 82 | 241 | 495 | 48.7 |
| 1959 | 85 | 249 | 510 | 48.8 |
| 1960 | 84 | 252 | 515 | 48.9 |
| 1961 | 87 | 260 | 527 | 49.3 |
| 1962 | 89 | 268 | 541 | 49.5 |
| 1963 | 97 | 280 | 557 | 50.3 |
| 1964 | 106 | 299 | 564 | 53.0 |
| 1965 | 109 | 310 | 569 | 54.5 |
| 1966 | 111 | 324 | 585 | 55.4 |
| | | (Data for 1967-1974 not available.) | | |
| 1975 | 115 | 405 | 711 | 57.0 |
| 1976 | 119 | 415 | 710 | 58.0 |

Source: Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, (New York, 1978), p. 100.

TABLE II-B-6
Television Groups
1977

| | Number | Weekly Circulation (millions) | Mean (thousands) | Daily Circulation (millions) | Mean (thousands) |
|---|---|---|---|---|---|
| Group-owned[a] | 339 | 209.3 | 617.4 | 126.8 | 374.0 |
| Independent Enterprises | 260 | 65.2 | 250.9 | 37.3 | 143.5 |
| Total | 599 | 274.5 | 458.3 | 164.1 | 273.9 |

% Group

| Number | Weekly Circulation | Daily Circulation |
|---|---|---|
| 57% | 76% | 77% |

[a]Combination of two or more television firms.

Source: Television Factbook, 1978 Television Digest, Inc.

Group ownership may strengthen the position of suppliers of programming with respect to networks. The ability to deal with groups instead of individual stations should cut the distribution and contracting costs of syndication thereby reducing the cost advantage of networks.

Noll, Peck and McGowan also suggest that strong groups may serve as nuclei for new networks, providing the advantage of a guaranteed minimum audience coverage enjoyed by the existing networks through their owned stations. (See Table II-B-7.)

The disadvantages of station groups are primarily political. Group ownership is contrary to the FCC's localism objective and station groups must answer to the charge that concentration in media ownership, by limiting the number of independent media voices, poses a threat to first amendment freedoms.

Network owned-and-operated television stations

The O-and-O's of the three major networks are distinguished from other station groups by the fact that they are all located in the largest markets, making the three network groups the largest of the station groups in terms of potential audience (see Tables II-B-7 and II-B-8 ), and by the fact that the O-and-O stations are each owned by their major supplier of programming. This last point raises issues both economic and political.

Social critics of TV, concerned with the dominance of network programming and the fewness of networks, argue that this concentration of important sources and filters of information in a few hands is dangerous because it limits the number of competing viewpoints broadcast to the public and creates the potential for opinion molding by strategically placed individuals. Network ownership of stations is viewed as an extension

TABLE II-B-7

Major Television Groups

1977

| Group | Number of Stations | Weekly circulation (millions) | National Total | Daily circulation (millions) | National Total |
|---|---|---|---|---|---|
| CBS | 5 | 15.8 | 5.6% | 10.1 | 6.0% |
| ABC | 5 | 15.2 | 5.4 | 9.2 | 5.4 |
| NBC | 5 | 15.0 | 5.3 | 9.2 | 5.4 |
| Metromedia | 6 | 12.7 | 4.5 | 6.5 | 3.8 |
| RKO General | 4 | 8.8 | 3.1 | 3.8 | 2.2 |
| Westinghouse | 5 | 8.4 | 3.0 | 5.1 | 3.0 |
| Storer | 7 | 6.7 | 2.4 | 4.1 | 2.4 |
| Field Communications | 5 | 6.2 | 2.2 | 2.7 | 1.6 |
| Capital Cities | 6 | 5.6 | 2.0 | 3.6 | 2.1 |
| Cox Broadcasting | 5 | 4.9 | 1.7 | 2.7 | 1.6 |
| Gaylord | 7 | 4.9 | 1.7 | 2.7 | 1.6 |
| Taft Broadcasting | 6 | 4.5 | 1.6 | 2.5 | 1.5 |
| Scripps-Howard | 6 | 4.0 | 1.4 | 2.5 | 1.5 |
| Post-Newsweek | 4 | 3.8 | 1.4 | 2.3 | 1.4 |

Source: Television Factbook, 1978, Television Digest, Inc.

TABLE II-B-8

Network Owned Stations (1977)

| | Number of households in ADI[1] | Households in ADI as % of U.S. Total |
|---|---|---|
| **ABC** | | |
| WABC, N. Y. | 6,524,300 | 8.90 |
| WLS, Chicago | 2,851,700 | 3.89 |
| WXYZ, Detroit | 1,597,100 | 2.18 |
| KABC, L. A. | 3,806,000 | 5.19 |
| KGO, San Francisco | 1,729,300 | 2.36 |
| Total | 16,508,400 | 22.52 |
| **CBS** | | |
| WCBS, N. Y. | 6,524,300 | 8.90 |
| KNXT, L.A. | 3,806,000 | 5.19 |
| WBBM, Chicago | 2,851,700 | 3.89 |
| WCAU, Philadelphia | 2,334,100 | 3.37 |
| KMOX, St. Louis | 965,200 | 1.32 |
| Total | 16,531,300 | 22.67 |
| **NBC** | | |
| WNBC, N. Y. | 6,524,300 | 8.90 |
| WRC, Washington | 1,344,000 | 1.83 |
| WMAQ, Chicago | 2,851,700 | 3.89 |
| WKYC, Cleveland | 1,298,600 | 1.77 |
| KNBC, L.A. | 3,806,000 | 5.19 |
| Total | 15,824,600 | 21.58 |

[1]ADI stands for Area of Dominant Influence. An ADI is a television market as defined by ARBITRON.

Souce: Broadcasting Yearbook, 1978

of network control to what would otherwise be potential owners of non-network programming and opinion. The fact that each network, through its O-and-O's has a potential audience of over 20 percent of U.S. households (refer again to Table II-B-8) lends seriousness to the argument against network ownership of stations. However, the argument is weakened somewhat by the fact that independent stations are strongest and most numerous in the O-and-O markets.

One argument, generally considered favorable to the existence of station groups, is that, acting as independent profit maximizers, they counter to some extent the power of the networks. O-and-O's are economically interesting precisely because they coordinate, or would be expected to do so, their behavior with their network owners. Therefore one would expect that, if anything, they would augment the networks' power.

The possibility that the O-and-O's increase the market power of the networks in the national television advertising market is apparent from Table II-B-9, although the significance of the O-and-O contribution is not clear. The percentages are not so small that they can be ignored nor so large that the opposite conclusion is obvious.

Besides their individual profitability and their importance in the advertising market the owned-and-operated stations may contribute to network profits in other ways.

The owners of programs produced for the networks always have the option of selling their product on the syndication market instead. Thus the potential returns in syndication set a floor on network payments to the suppliers of network programs. A program's potential revenue in syndication is dependent upon the number of stations to which the program can be sold. If O-and-O's, due to network control over their pur-

Table II-B-9

Gross National TV Advertising

| Year | Total National TV Advertising ($ million) | Network Advertising ($ million) | Total National Spot ($ million) | National spot on O&O's ($ million) | Network Sales As % of total | O&O Spot Sales % of total | Combined Network and O&O Sales % of total |
|---|---|---|---|---|---|---|---|
| 1977 | $5,208.5 | $3,241.2 | $1,967.3 | $348.4 | 62.2 | 6.7 | 68.9 |
| 1976 | 4,597.5 | 2,674.9 | 1,922.6 | 375.5 | 58.2 | 8.2 | 66.4 |
| 1975 | 3,605.9 | 2,156.7 | 1,449.2 | 290.7 | 60.0 | 8.0 | 68.0 |
| 1974 | 3,341.7 | 2,005.6 | 1,336.1 | 286.4 | 60.0 | 8.6 | 68.6 |
| 1973 | 3,069.9 | 1,839.7 | 1,230.2 | 273.4 | 60.0 | 8.9 | 68.9 |
| 1972 | 2,864.9 | 1,687.5 | 1,177.4 | 272.7 | 58.9 | 9.5 | 68.4 |
| 1971 | 2,493.2 | 1,490.4 | 1,002.8 | 236.4 | 59.8 | 9.5 | 69.3 |
| 1970 | 2,653.9 | 1,551.1 | 1,102.6 | 270.2 | 58.4 | 10.2 | 68.6 |
| 1969 | 2,688.7 | 1,569.6 | 1,119.1 | 279.5 | 58.4 | 10.4 | 68.8 |
| 1968 | 2,434.1 | 1,424.3 | 1,009.8 | 257.1 | 58.5 | 10.6 | 69.1 |
| 1967 | 2,241.8 | 1,359.1 | 882.7 | NA | 60.6 | NA | NA |
| 1966 | 2,184.6 | 1,302.4 | 882.2 | 230.9 | 59.6 | 10.6 | 70.2 |
| 1965 | 1,937.6 | 1,141.7 | 795.9 | 179.5 | 58.9 | 9.3 | 68.2 |

Source: FCC data reported in annual issues of Broadcasting.

chasing decisions, are excluded as potential buyers, the program's potential earnings in syndication, and hence the price at which the program may be acquired by a network, is reduced.

Station ownership may also enable the networks to effect a reduction in their clearance payments to unowned affiliates. Clearance payments are payments made by the networks to their affiliates to induce them to broadcast, or clear, network programs. In the absence of such payments stations would certainly broadcast more programs available in syndication. Thus the size of network clearance payments is determined by the attractiveness of the syndicated programs available.

The potential effect of network station ownership on the earnings of programs produced for the syndication market is similar to the effect described above for network programs. If denied O-and-O sales, syndicated earnings can only be reduced. If, as a consequence, less talent is attracted to the syndication market, the quality of syndicated programming will suffer relative to network fare and networks will be able to make lower clearance payments than otherwise would have been possible.

The theory of vertical integration tells us that two firms, embodying different but consecutive stages in a production process, will behave differently if merged than they will if they are operated independently. The same theory, applied to the case of network O-and-O's, suggests that network owned stations will make different programming decisions than unowned affiliates. The reasoning is as follows.

The primary source of network revenue is commercial time on network programs which is sold to advertisers. Network advertising time purchased on a particular program provides the advertiser with exposure

on all stations clearing the program. To an advertiser, the value of his advertising, and therefore the price he is willing to pay for commercial time, increases with the number of potential consumers to whom his advertising is exposed. Thus a network will try to get its programs cleared on as many stations as possible, since by doing so network revenues are increased.

On network programs the available commercial time (which is set by the NAB Television Code) is divided between the stations and their networks, each allowed to sell a given portion. In general, because of their greater audience appeal and their associated clearance payments, stations prefer to broadcast network programs rather than syndicated alternatives. However, for the less popular network programs, stations may find syndicated programs more financially attractive, since on syndicated programs the commercial time does not have to be shared with a network. It is at this point that network and station objectives conflict, since network revenue could still be increased if more network programs were broadcast.

In the case of a station owned by its network, joint profits would be maximized and this conflict would not arise. Therefore we should observe network owned stations to be broadcasting more network programming than unowned affiliates. This hypothesis is supported by an indirect test reported in one of the independent papers associated with the study.*

*Wildman, S., "Vertical Integration in Broadcasting: A Study of Network Owned-and-Operated TV Stations," prepared for the FTC Media Symposium, December 14, 15, 1978, Washington, D. C.

TABLE II-B-10
Network and Station Revenues and Expenses

| Broadcast revenues, expenses and income | Networks | % change over previous year | 15 owned-and operated TV stations | % change over previous year | 682 other TV stations[1] | % change over previous year | Total three networks and 697 stations[1] | % change over previous year |
|---|---|---|---|---|---|---|---|---|
| Sales to advertisers for time, programs, talent, facilities and services | | | | | | | | |
| Network sales | $3,234,300,000 | 21.1 | | | | | | |
| Deduct payments to owned-and-operated stations | 41,400,000 | 3.0 | | | | | | |
| Deduct payments to other afficilated stations | 239,600,000 | 6.7 | | | | | | |
| Retained from network sales | 2,953,300,000 | 22.8 | $41,600,000[2] | 3.5 | $246,300,000[2] | 7.2 | 3,241,200,000[3] | 21.2 |
| Nonnetwork sales | | | | | | | | |
| To national and regional advertisers[3] | - | - | 348,400,000 | (2.5) | 1,618,900,000 | 3.4 | 1,967,300,000 | 2.3 |
| To local advertisers[3] | - | - | 219,900,000 | 13.8 | 1,411,000,000 | 13.9 | 1,630,900,000 | 13.9 |
| Total nonnetwork sales | - | - | 568,200,000 | 3.1 | 3,029,900,000 | 8.1 | 3,598,200,000 | 7.3 |
| Total sales to advertisers | 2,953,300,000 | 22.8 | 609,800,000 | 3.2 | 3,276,200,000 | 8.0 | 6,839,300,000 | 13.4 |
| Sales to other than advertisers | 114,600,000 | 0.1 | 3,500,000 | (14.6) | 41,300,000 | (2.4) | 159,300,000 | (1.0) |
| Total sales | 3,067,900,000 | 21.8 | 613,300,000 | 3.2 | 3,317,500,000 | 7.9 | 6,998,700,000 | 13.1 |
| Deduct commission to agencies, representatives, etc. | 486,500,000 | 21.0 | 109,700,000 | 1.4 | 513,400,000 | 6.6 | 1,109,600,000 | 11.9 |
| Total revenues | 2,581,400,000 | 21.9 | 503,500,000 | 3.6 | 2,804,100,000 | 8.1 | 5,889,000,000 | 13.3 |
| Total expense | 2,175,300,000 | 19.4 | 354,200,000 | 8.0 | 1,958,500,000 | 8.9 | 4,488,000,000 | 13.7 |
| Total income (before federal income tax) | 406,100,000 | 37.4 | 149,300,000 | (6.1) | 845,700,000 | 6.3 | 1,401,000,000 | 12.1 |

Footnotes for TABLE II-B-10

[1]includes 61 satellites, 27 of which filed combined reports with their parent stations.

[2]includes payments from networks other than ABC, CBS or NBC.

[3]includes sales of programs, materials, facilities and services made in connection with sales of time. Excludes sales made by 16 commercial stations that obtained most of their revenues from contributions: national and regional--$4,092,537, and local--$3,363,006. Because stations are not consistent in the way they classify national/regional versus local sales, year-to-year comparisons should be made with caution.

Notes: Last digits may not add because of rounding. Parentheses ( ) indicate decline.

Source: FCC data published in Broadcasting, Aug. 14, 1978, p. 52.

TABLE II-B-11

Trend of Gross TV Advertising Revenues 1965-1977[1/]

| Year | Total ($ Million) | Network[2/] ($ Million) | Network[2/] Percent of Total | National Spot[3/] ($ Million) | National Spot[3/] Percent of Total | Local[4/] ($ Million) | Local[4/] Percent of Total |
|---|---|---|---|---|---|---|---|
| 1977 | 6,839.3 | 3,241.2 | 47.4 | 1,967.3 | 28.8 | 1,630.9 | 23.8 |
| 1976 | 6,029.3 | 2,674.9 | 44.4 | 1,922.6 | 31.9 | 1,431.9 | 23.7 |
| 1975 | 4,722.1 | 2,156.7 | 45.7 | 1,449.2 | 30.7 | 1,116.2 | 23.6 |
| 1974(Revised) | 4,356.6 | 2,005.6 | 46.0 | 1,337.3 | 30.7 | 1,013.7 | 23.3 |
| 1973 | 4,002.1 | 1,839.7 | 46.0 | 1,230.2 | 30.7 | 932.2 | 23.3 |
| 1972 | 3,675.0 | 1,687.5 | 45.9 | 1,177.4 | 32.0 | 810.1 | 22.0 |
| 1971 | 3,178.8 | 1,490.4 | 46.9 | 1,022.8 | 32.2 | 665.6 | 20.9 |
| 1970 | 3,242.8 | 1,551.1 | 47.8 | 1,102.6 | 34.0 | 589.1 | 18.2 |
| 1969 | 3,235.5 | 1,569.6 | 48.5 | 1,119.1 | 34.6 | 546.8 | 16.9 |
| 1968 | 2,916.1 | 1,424.3 | 48.8 | 1,009.8 | 34.6 | 482.0 | 16.5 |
| 1967 | 2,634.4 | 1,359.1 | 51.6 | 882.7 | 33.5 | 392.6 | 14.9 |
| 1966 | 2,557.6 | 1,302.4 | 50.9 | 882.2 | 34.5 | 373.0 | 14.6 |
| 1965 | 2,265.9 | 1,141.7 | 50.4 | 795.9 | 35.1 | 328.3 | 14.5 |

1/ Gross advertising revenues are the total amounts paid by advertisers for the use of broadcast facilities. They include commissions paid to advertising agencies and representative agencies, and cover charge for broadcast time, and programs, materials, facilities and services supplied by the broadcast industry in connection with the sale of time.

2/ Network advertising revenues for years prior to 1969 were derived as follows: Sales of programs, materials, facilities and service made in connection with sales of time were divided by .85 to yield a figure which included advertising agency commissions. The result of this calculation was added to network time sales (before commissions) to arrive at the total network advertising revenues.

3/ National and regional advertising revenues for years prior to 1969 were estimated with the help of data obtained for the first time in 1969. These provided information on the precise amounts of broadcasting revenues derived from (1) the sale of time to advertisers, including charges for programs, materials and facilities and service supplied in connection with sales of time: and (2) all other broadcast revenues. In prior years, figures reported as "all other broadcast revenues" included some charges for programs, talent, materials and facilities supplied in connection with sales of time. The amounts of the latter to be included in gross advertising revenues were estimated for years prior to 1969 by applying the ratios of advertiser-connected non-time sales to total non-time sales prevailing in 1969. In addition, because stations are not consistent in the way they classify national/regional versus local sales, year to year comparisons in these categories should be made with caution.

4/ Local advertising revenues for years prior to 1969 were derived in the same fashion as described in footnote 3.

Source: FCC data

TABLE II-B-12

TV Stations in Operation[1/]

Commercial Stations

| Year | Total | VHF | UHF |
|---|---|---|---|
| 1945 | 6 | 6 | - |
| 1950 | 97 | 97 | - |
| 1955 | 439 | 294 | 117 |
| 1960 | 573 | 441 | 76 |
| 1965 | 586 | 487 | 99 |
| 1966 | 598 | 491 | 107 |
| 1967 | 620 | 497 | 123 |
| 1968 | 648 | 504 | 144 |
| 1969 | 675 | 506 | 169 |
| 1970 | 690 | 508 | 182 |
| 1971 | 696 | 511 | 185 |
| 1972 | 699 | 510 | 189 |
| 1973 | 700 | 511 | 189 |
| 1974 | 705 | 513 | 192 |
| 1975 | 711 | 513 | 198 |
| 1976 | 710 | 513 | 197 |
| 1977 | 728 | 517 | 211 |

Noncommercial Stations

| Year | Total | VHF | UHF |
|---|---|---|---|
| 1955 | 9 | - | - |
| 1960 | 44 | - | - |
| 1965 | 88 | 54 | 34 |
| 1966 | 105 | 61 | 44 |
| 1967 | 118 | 67 | 51 |
| 1968 | 146 | 71 | 75 |
| 1969 | 172 | 76 | 96 |
| 1970 | 182 | 77 | 105 |
| 1971 | 196 | 85 | 111 |
| 1972 | 206 | 89 | 117 |
| 1973 | 229 | 91 | 138 |
| 1974 | 233 | 91 | 142 |
| 1975 | 241 | 95 | 146 |
| 1976 | 252 | 97 | 155 |
| 1977 | 256 | 101 | 155 |

[1]The number of stations as of January 1 of year noted.

Source: Broadcasting Yearbook, 1978.

C. Book Publishing

1. The Firm and its markets

The output of the book industry is a set of highly differentiated products, differentiation indicated both by physical differences in products and, more importantly, differences in method of distribution to consumers. The production process--from manuscript to book on retail shelves--involves several stages. Figure II-C-1 summarizes the process of creating and distributing a book.

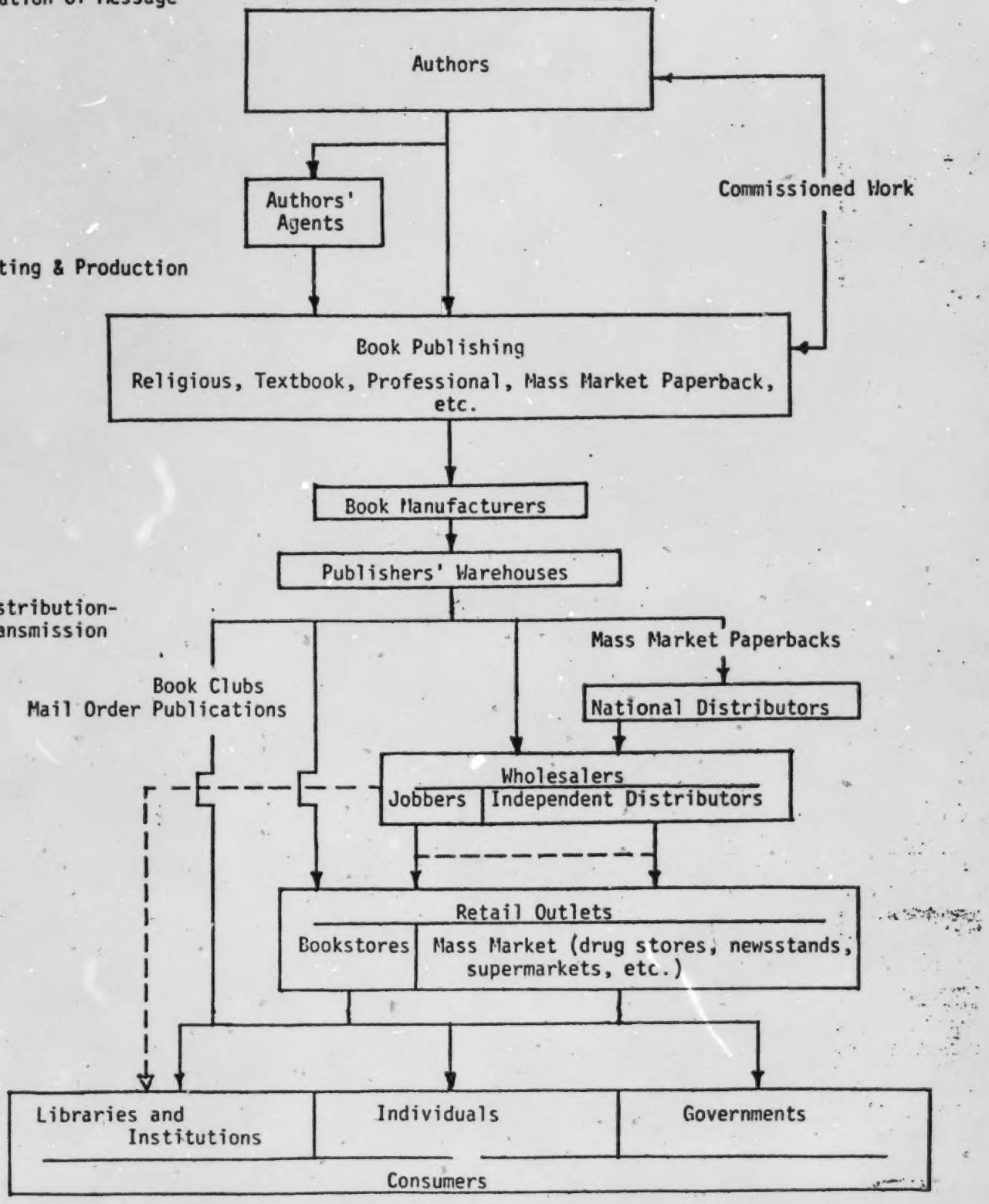
a. Production

The initial stage in the production process of a book is the creation of a manuscript, the work of an author. A manuscript is a collection of information. This information has important "public good" characteristics: the cost of its creation is unrelated to the number of people who will use it. Publishers embody this public good in the form of a private good, a physical book. Copyright laws make possible this conversion of information into a marketable commodity by giving the author an enforceable property right in the manuscript's content, thereby making unauthorized reproduction illegal.

The publishing industry produces not one product but many. At the finest level of analysis, each title in print is a different product, each publisher a multi-product firm. At a more general level, the

1. Creation of Message

Figure II-C-1:Stages of Production



industry and its observers find useful distinctions of sub-markets of similar books. These sub-markets can be disaggregated in many ways. Table II-C-1 contains output statistics divided by subject matter. Table II-C-2 reports sales trends aggregated by class of content. Books produced for entertainment dominate these two product classes:

- trade books: books designed for the general consumer; they are not designed for educational purposes, but in recent years they have been used this way. They are sold through bookstores, may be designed for adults and children.

- mass market paperbacks: paperbounds usually of standard rack size (4¼ x 7"). They are distributed predominantly to mass market outlets such as newsstands, drug stores and variety stores. Many are reprints of hardcover trade books; others are originally published in this format. They sell at an average price substantially lower than the price of trade paperbacks and hardcover books. Staples of the mass market publishing industry include hardcover best sellers, 'escape' fiction such as romances and Gothics, and tie-ins with film or TV.

Book clubs have traditionally been part of the publishing industry; they might be better classed as a retail channel. Distinctions are made between consumer and professional book clubs. Consumer book

TABLE II-C-1

American Book Title Output by Subject Matter, 1961-1977

| | 1961 | 1964 | 1968 | % Change 1961-1968 | 1972 |
|---|---|---|---|---|---|
| Agriculture | 231 | 285 | 249 | 8 | 380 |
| Art | 620 | 906 | 1,117 | 80 | 1,470 |
| Biography | 790 | 948 | 1,123 | 42 | 1,986 |
| Business | 350 | 575 | 772 | 121 | 684 |
| Education | 534 | 1,232 | 1,125 | 111 | 1,292 |
| Fiction | 2,630 | 3,271 | 2,811 | 7 | 3,260 |
| General Works | 275 | 532 | 749 | 172 | 1,048 |
| History | 1,049 | 1,358 | 1,528 | 46 | 1,629 |
| Home Economics | 191 | 237 | 312 | 63 | 596 |
| Juveniles | 1,626 | 2,808 | 2,482 | 53 | 2,526 |
| Language | 307 | 801 | 502 | 64 | 479 |
| Law | 256 | 346 | 581 | 127 | 716 |
| Literature | 888 | 1,454 | 2,106 | 137 | 2,525 |
| Medicine | 776 | 1,211 | 1,277 | 65 | 1,839 |
| Music | 155 | 214 | 290 | 87 | 402 |
| Philosophy/psychology | 565 | 766 | 946 | 67 | 1,164 |
| Poetry/drama | 615 | 936 | 1,062 | 73 | 1,484 |
| Religion | 1,290 | 1,830 | 1,791 | 39 | 1,705 |
| Science | 1,494 | 2,738 | 2,407 | 61 | 2,586 |
| Sociology/economics | 1,613 | 3,272 | 4,070 | 152 | 6,415 |
| Sports/recreation | 444 | 582 | 644 | 45 | 941 |
| Technology | 781 | 1,125 | 1,262 | 62 | 1,425 |
| Travel | 580 | 1,024 | 1,181 | 104 | 1,491 |
| Total | 18,060 | 28,451 | 30,387 | 68 | 38,043 |

-continued

Table II-C-1
(concluded)

| | 1975 | % Change 1968-1975 | 1976 | 1977 |
|---|---|---|---|---|
| Agriculture | 456 | 83 | 600 | 598 |
| Art | 1,561 | 40 | 1,681 | 1,795 |
| Biography | 1,968 | 75 | 2,085 | 2,104 |
| Business | 820 | 6 | 983 | 1,077 |
| Education | 1,038 | -8 | 1,078 | 1,194 |
| Fiction | 3,805 | 35 | 3,836 | 3,681 |
| General Works | 1,113 | 49 | 1,261 | 1,448 |
| History | 1,823 | 19 | 2,295 | 2,022 |
| Home Economics | 728 | 133 | 806 | 795 |
| Juveniles | 2,292 | -8 | 2,478 | 2,918 |
| Language | 438 | -13 | 523 | 556 |
| Law | 915 | 57 | 861 | 948 |
| Literature | 1,904 | -10 | 1,694 | 1,866 |
| Medicine | 2,282 | 79 | 2,587 | 2,833 |
| Music | 305 | 5 | 366 | 373 |
| Philosophy/psychology | 1,374 | 45 | 1,386 | 1,372 |
| Poetry/drama | 1,501 | 41 | 1,582 | 1,437 |
| Religion | 1,778 | -1 | 2,058 | 2,121 |
| Science | 2,942 | 22 | 2,852 | 3,015 |
| Sociology/economics | 6,590 | 62 | 6,993 | 6,814 |
| Sports/recreation | 1,225 | 90 | 1,224 | 1,119 |
| Technology | 1,720 | 36 | 1,888 | 2,218 |
| Travel | 794 | -33 | 581 | 480 |
| Total | 39,372 | 30 | 41,698 | 42,780 |

Notes: i. Sources: The Bowker Annual
Publishers Weekly
The Mass Media: Aspen Institute Guide to Communication Industry Trends.

ii. A change in reporting was made by Publishers Weekly for data in 1976-77. See note vi. in Table II-C-9

TABLE II-C-2

AAP-Estimated Sales Totals and Percentage Growth for the Book Publishing Industry, by Type of Book, 1971-1977

Sales Totals--in millions of dollars

| | 1971 | 1972 | | 1973 | |
|---|---|---|---|---|---|
| | Sales | Sales | % Changes From 1971 | Sales | % Changes From 1972 |
| Trade Books | 422.7 | 442.0 | 4.6 | 460.1 | 4.1 |
| Religious Books | 108.5 | 117.5 | 8.3 | 124.7 | 6.1 |
| Professional Books | 353.0 | 381.0 | 7.9 | 405.4 | 6.4 |
| Book Club Books | 229.5 | 240.5 | 4.8 | 262.4 | 9.1 |
| Mail Order Publications | 194.6 | 198.9 | 2.2 | 221.2 | 11.2 |
| Mass Market Paperbacks | 228.8 | 252.8 | 10.5 | 297.1 | 17.5 |
| University Press Books | 39.3 | 41.4 | 5.3 | 42.6 | 2.9 |
| Elem./Sec. Text Books | 496.6 | 497.6 | +0.2 | 547.9 | 10.1 |
| College Textbooks | 371.5 | 375.3 | 1.0 | 392.2 | 4.5 |
| Standardized Tests | 25.3 | 26.5 | 4.8 | 28.8 | 8.7 |
| Subscription Reference Books | 301.0 | 278.9 | -7.3 | 262.2 | -6.0 |
| Audio Visual/Other | 106.2 | 116.2 | 14.8 | 117.8 | 1.4 |
| Other Book Sales | 45.8 | 49.2 | 7.4 | 57.2 | 4.1 |
| Total Sales | 2,917.8 | 3,017.8 | 3.4 | 3,213.6 | 6.5 |

- continued

Table II-C-2
(concluded)

| | 1974 | | 1975 | | 1976 | | 1977 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sales | % Changes From 1973 | Sales | % Changes From 1974 | Sales | % Changes From 1975 | Sales | % Changes from 1976 | % Changes from 1971 |
| Trade | 522.7 | 13.6 | 549.2 | 5.1 | 573.3 | 4.4 | 631.8 | 10.2 | 49.5 |
| Religious | 130.6 | 4.7 | 154.6 | 18.4 | 171.2 | 10.7 | 178.4 | 4.2 | 64.4 |
| Professional | 466.3 | 15.0 | 501.2 | 7.5 | 559.0 | 11.5 | 627.0 | 12.2 | 77.6 |
| Book Club | 283.6 | 8.1 | 303.4 | 7.0 | 343.1 | 13.1 | 374.3 | 9.1 | 63.1 |
| Mail Order | 247.0 | 11.7 | 279.8 | 13.3 | 348.9 | 24.7 | 373.0 | 6.9 | 91.7 |
| Mass Market | 308.9 | 4.0 | 356.2 | 15.3 | 415.4 | 16.6 | 515.9 | 24.2 | 125.5 |
| University | 46.1 | 8.2 | 48.8 | 5.8 | 53.5 | 9.6 | 56.1 | 4.9 | 42.7 |
| Elem./Sec. | 598.8 | 9.3 | 643.1 | 7.4 | 640.1 | -0.5 | 704.8 | 10.1 | 41.9 |
| College | 453.4 | 15.6 | 530.6 | 17.0 | 564.0 | 6.3 | 592.4 | 5.0 | 56.3 |
| Standardized | 34.2 | 18.7 | 36.7 | 7.3 | 40.0 | 9.0 | 44.9 | 12.3 | 77.5 |
| Subscription Ref. | 280.2 | 6.8 | 258.1 | -7.9 | 286.5 | 11.0 | 302.0 | 5.4 | 0.3 |
| Av./Other | 143.0 | 21.4 | 137.3 | -4.0 | 142.0 | 3.4 | 153.3 | 8.0 | 44.4 |
| Other Sales | 55.1 | 7.6 | 51.7 | -6.2 | 48.2 | -6.8 | 51.6 | 7.1 | 12.7 |
| Total | 3,569.9 | 11.1 | 3,830.7 | 7.9 | 4,185.2 | 8.7 | 4,605.5 | 10.0 | 57.8 |

Notes: Source: AAP Industry Statistics. These data are estimates based on a survey of industry firms. One cannot discount the possibility of systematic bias resulting from respondents' self-selection.

clubs are either general interest clubs (Book-of-the-Month, Literary Guild) or special interest clubs (Science Fiction Book Club, Mystery Guild)..

Mail order publications are books created for the general consumer and are marketed by direct mail. Unlike book club sales, the purchaser incurs no obligation nor enters into any membership arrangement.

b. Distribution Channels

The distribution system for book publishing has two main categories:

- direct publisher-to-consumer sales (including book club sales).
- retail outlet sales.

Direct sales are of two types: mail order sales of publishers and book club sales. Direct sales account for about 15% of sales dollars, about evenly divided between the two classes. Participation in the book club sector has grown steadily, as Table II-C-3 shows.

The remaining 85% of the sales occur through retail outlets. This publisher-to-consumer distribution system includes three classes of firms: national distributors, independent distributor wholesalers, jobber wholesalers, and retail outlets. National distributors and independent distributors

Table II-C-3
Number of Book Clubs in U.S.
1958-1975

| Year | 1958 | 1961 | 1963 | 1965 | 1967 | 1969 | 1971 | 1973 | 1975 |
|---|---|---|---|---|---|---|---|---|---|
| Number | 56 | 55 | 57 | 62 | 127 | 138 | 156 | 161 | 198 |

Source: The Mass Media: Aspen Institute Guide to Communication Industry Trends.

are primarily the distribution channel for mass market paperbound books. Jobbers, together with publishers, are primarily the distribution channel for trade books, libraries, and schools.

Eleven national distributors handle substantially all mass market paperback distribution. This distribution system is simply piggybacked onto the magazine distribution network. A national distributor is generally the arm of a publisher handling distribution. Table II-C-4 lists the major nine and their ownership. Most started out owned by magazine publishers but through some corporate change, many no longer are. Two national distributors handle books only. Some national distributors handle only books and magazines published by the distributors' owners; others will distribute a house's line of books without being in any way affiliated with the house, and if the line does not compete with one of the lines of the distributors' owners. National distributors have their own national sales forces, and sometimes will supplement their publisher-clients' promotion and publicity efforts. Although national distributors may set up accounts directly with retailers, their books are usually delivered to retailers through wholesalers.

Wholesalers are divided into independent distributors (IDs) and jobbers. Independent distributors generally service a particular geographic area on an exclusive basis, handling both magazines and mass market paperbacks. There are more than 500 IDs in the U.S. and Canada. Most started as local distributors of magazines and national newspapers, later adding paperbacks. IDs get their books from national distributors.

Table II-C-4
Paperback National Distributors

| National Distributors | Owner | Books Distributed | |
|---|---|---|---|
| | | Owned by Same Owner | Other |
| 1. Dell Distributing | Doubleday | Dell | - |
| 2. Fawcett Marketing Services | Columbia Broadcasting (CBS) | Crest<br>Gold Medal<br>Popular Library (owned by CBS) | - |
| 3. Independent News Co. (IND) | Warner Communications | Warner | Pinnacle |
| 4. International Circulation Distributors (ICD) | Hearst | Avon | HBJ/JOVE |
| 5. New American Library (NAL) | Times Mirror | NAL | Daw |
| 6. Pocket Books Distribution | Gulf & Western | Pocket | Harlequin<br>Playboy Press |
| 7. Kable News Co. | Amrep Corp. | - | Only "Outside" Books: Berkley Beeline, Major, Leisure, & Zebra |
| 8. Publishers Distributing Co. (PDC) | Filmways | Charter<br>Ace (Grosset's (owned by Filmways) | |
| 9. Select Magazines | Cooperative of Magazine Publishers (Reader's Digest, Family Circle, McCall's, Popular Science, Better Homes & Gardens) | - | Bantam (has contract to only distribute this paperback.) |

Source: Smith, 1978.

Until recently, most IDs were force-fed magazines and mass market paperbacks from publishers and national distributors. Now IDs have more but not complete discretion in determining which books they will handle. Usually, an ID will allocate a monthly budget for each publisher he deals with, allowing the publisher to supply him with books to fit the budget. However, the more success a publisher's line has, the more bargaining power the publisher has with the ID to increase his budget. In the case of 'hot' titles, a publisher may be able to tie-in other titles as a condition of allowing the ID to handle the best seller.

An ID distributes to mass market outlets such as drug stores, supermarkets, and newsstands through its own truck fleet. An ID makes selections for the mass market outlets it services based upon its knowledge of what sells in a particular type of store in a certain area. As retailers do not have enough space to handle all that is published (around 200 mass market titles per month in 1972), IDs give retailers an assorted selection of what they feel will sell.

The second class of wholesaler is the jobber. Traditionally, jobbers have handled hardcover books and trade paperbacks, distributing to bookstores and libraries. Now some have added lines of mass market paperbacks, just as some IDs have added trade paperbacks and even some hardcover books. A jobber is not confined to a geographical area and does not place prime reliance on its own trucks for distribution but relies on common carriers. Jobbers do not handle magazines.

Data on wholesalers are sketchy and inadequate, appropriate only for understanding the magnitudes involved; see Tables II-C-5 and 6 for estimates of book sales by wholesalers and jobbers in the U.S.

Retail outlets include general retailers (divided into bookstores--single and chain--and mass market outlets--supermarkets, newsstands, and others), college stores, libraries and institutions, and schools.

Bookstore sales have grown greatly in recent years. Figure II-C-2 and Table II-C-7 indicate this trend (the Census Bureau's definition of bookstore is an establishment primarily selling new books and periodicals). The most spectacular growth has been the paperback category, defined as stores with stock consisting of more than 80% paperback. From 1958 to 1975, these stores grew from 23 to 598. Bookstore chains show a steadily increasing but small market share, reported in Table II-C-8.

2. General Industry Trends

The book industry has been experiencing steady growth in dollar sales, with a 5.3% average annual growth rate (adjusted to correct for inflation) over the period 1954-1975. Growth in new titles per year has been steady and substantially increasing from 8600 in 1950 to over 33,000 in 1977. Over that time, new titles produced per capita more than doubled. Table II-C-9 presents figures by year.

Table II-C-5
Number of Book Wholesalers By Type of Wholesaler

| Year | Book-Store | Special Subjects | School & Library | Remainder | Book Magazine | Total Book Wholesalers |
|---|---|---|---|---|---|---|
| 1958 | 16 | 10 | 50 | 14 | 2,164 | 180* |
| 1963 | 18 | 30 | 59 | 13 | 2,630 | 261* |
| 1967 | 17 | 35 | 73 | 10 | 2,734 | 877 |
| 1972 | 18 | 35 | 66 | 12 | 2,628 | 1,031 |
| 1978 | 26 | 52 | 86 | 27 | NA | 1,029 |

Source: Publishers Weekly
U. S. Census of Business

*Includes only non-mass market paperback wholesalers.

Table II-C-6
Estimated Book Sales By Wholesalers and Jobbers in U.S. by Channel of Distribution, 1972 & 1976
(millions of dollars and units)

| Channel of Distribution | 1972 | | 1976 | | 1972-1976, % Change | |
|---|---|---|---|---|---|---|
| | $ | Units | $ | Units | $ | Units |
| General Retailers | 175.8 | 207.9 | 331.4 | 256.0 | 88.5 | 23.1 |
| College Stores | 45.5 | 45.0 | 66.5 | 41.9 | 46.2 | -6.9 |
| Libraries and Institutions | 218.1 | 63.3 | 274.1 | 53.1 | 25.7 | -16.1 |
| Schools | 117.9 | 75.7 | 104.3 | 53.5 | -11.5 | -29.3 |
| Export Sales | 24.2 | 10.1 | 37.0 | 11.7 | 52.9 | 15.8 |
| Totals | 581.3 | 401.3 | 813.5 | 416.0 | 39.9 | 3.7 |

Source: The Mass Media: Aspen Institute Guide to Communication Industry Trends

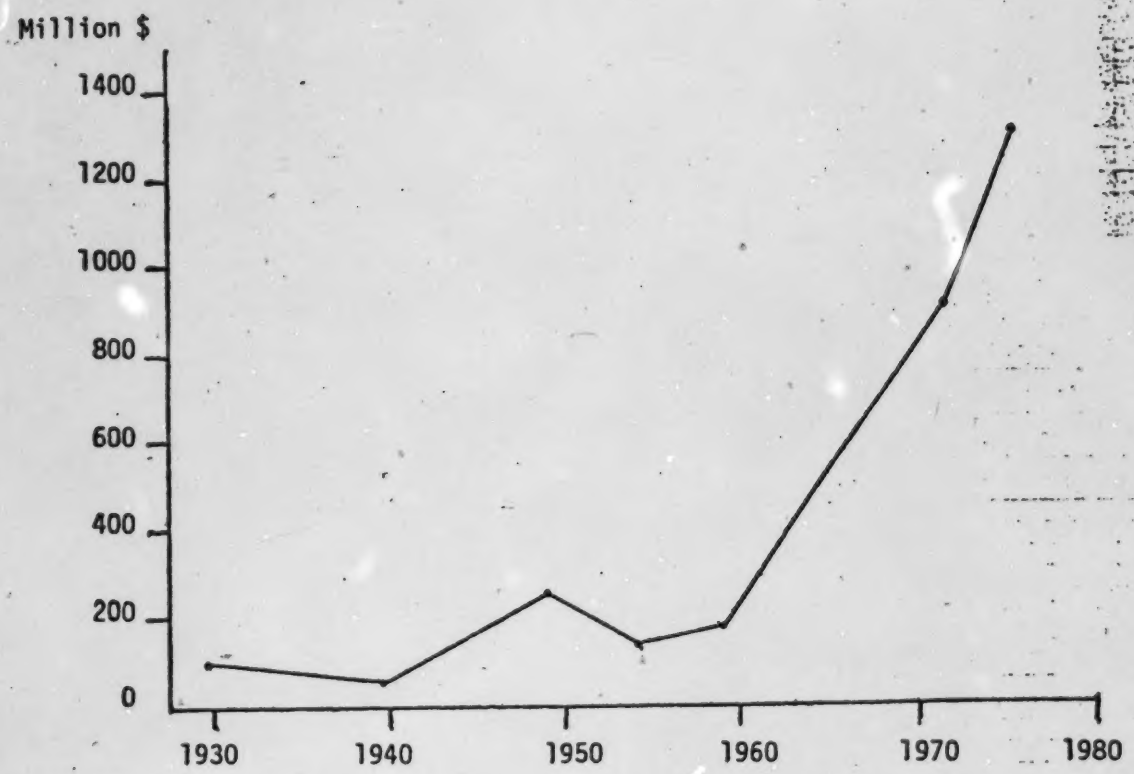



Figure II-C-2 Annual Sales of U.S. Bookstore Establishments, 1930-1976

Table II-C-7

Annual Sales of Bookstore Establishments,
Selected Years

| Year | 1929 | 1939 | 1948 | 1954 | 1958 | 1963 | 1967 | 1972 | 1976 |
|---|---|---|---|---|---|---|---|---|---|
| Annual Sales | 117.0 | 73.8 | 267.7 | 151.2 | 196.3 | 279.5 | NA | 907.0 | 1,300.0 |
| Number of Establishments | 2,809 | 2,845 | 2,905 | 2,642 | 2,885 | 3,154 | NA | 7,830 | 12,000 |

Source: Lofquist, in Printing and Publishing.

TABLE II-C-8

Number, Sales, and Percentage of Single- and Multi-Unit Bookstores in U.S., by Number of Stores Owned, 1958-1972

Number of Stores

| | 1958 | 1963 | 1967 | 1972 |
|---|---|---|---|---|
| Total, All Bookstores | 2,885 | 3,154 | 2,960[a] | 7,830 |
| Percentage of Total Which Are:[b] | | | | |
| Single-Unit Stores | 90.1% | 86.2% | 76.2% | 81.2% |
| Operated by Single-Establishment Firms | 88.2 | 84.2 | 74.2 | 79.8 |
| Operated by Multi-Establishment Firms | 1.9 | 2.0 | 2.0 | 1.4 |
| Multi-Unit Stores | 9.9 | 13.8 | 23.8 | 18.8 |
| 2 Units | 4.2 | 6.1 | 7.0 | 3.7 |
| 3 Units | .9 | 1.7 | 1.6 | 2.3 |
| 4 to 5 Units | 1.6 | 2.0 | 2.9 | 2.1 |
| 6 to 10 Units | .6 | 1.6 | 1.9 | 2.1 |
| 11 to 25 Units | 1.5 | 1.0 | 2.7 | 1.6 |
| 26 to 50 Units | 1.1 | 1.0 | 1.6 | 1.7 |
| 51 to 100 Units | 0 | .4 | 5.3 | 2.6 |
| 101 or more Units | 0 | 0 | 0 | 2.7 |
| Total, 6 or more Units | 3.2 | 4.0 | 11.5 | 10.7 |

Sales (millions of dollars)

| | 1958 | 1963 | 1967 | 1972 |
|---|---|---|---|---|
| Total, All Bookstores | $196.3 | $279.5 | $427.6[a] | $877.6 |
| Percentage of Total Sales by: | | | | |
| Single Unit Stores | 72.2% | 67.9% | 67.7% | 58.4% |
| Operated by Single-Establishment Firms | 68.3 | 63.2 | 59.4 | 53.9 |
| Operated by Multi-Establishment Firms | 3.9 | 4.7 | 8.3 | 4.5 |
| Multi-Unit Stores | 27.8 | 32.1 | 32.3 | 41.6 |
| 2 Units | 10.2 | 11.7 | 9.2 | 8.3 |
| 3 Units | 1.3 | 2.5 | 3.1 | 5.3 |
| 4 to 5 Units | 3.7 | 7.3 | 3.5 | 4.5 |
| 6 to 10 Units | | 2.7 | 3.6 | 3.1 |
| 11 to 25 Units | 12.6 | | 5.9 | 5.1 |
| 26 to 50 Units | | 8.0 | | 3.7 |
| 51 to 100 Units | | | 7.0 | |
| 51 to 100 Units | 0 | | | 11.5 |
| 101 or more Units | 0 | 0 | 0 | |
| Total, 6 or more Units | 12.6 | 10.7 | 16.5 | 23.4 |

Source: U. S. Census of Business.

Notes: [a]Includes only those bookstores with payrolls.

[b]Percentages are computed on the total number of bookstores in operation for the entire year.

TABLE II-C-9

Publishing Industry Growth,
1950-1977

| Year | Sales ($000,000) Current Dollars | Sales ($000,000) Constant Dollars | New Titles | New Editions | Total | Population (Ages 5-68) (000) | Title Output/Capita (/1000) |
|---|---|---|---|---|---|---|---|
| 1950 | - | - | 8,634 | 2,388 | 11,022 | 122,991 | 0.070 |
| 1951 | - | - | 8.765 | 2,490 | 11,255 | 124,267 | 0.071 |
| 1952 | - | - | 9,399 | 2,481 | 11,840 | 126,557 | 0.074 |
| 1953 | - | - | 9,724 | 2,326 | 12,050 | 128,435 | 0.076 |
| 1954 | 575.7 | 964.3 | 9,690 | 2,211 | 11,901 | 130,389 | 0.074 |
| 1955 | - | - | 10,226 | 2,363 | 12,589 | 132,319 | 0.077 |
| 1956 | - | - | 10,007 | 2,531 | 12,538 | 134,242 | 0.074 |
| 1957 | - | - | 10,561 | 2,581 | 13,142 | 135,542 | 0.077 |
| 1958 | 885.5 | 1,341.7 | 11,012 | 2,450 | 13,462 | 138,602 | 0.080 |
| 1959 | 998.9 | 1,479.9 | 12,017 | 2,859 | 14,876 | 140,805 | 0.085 |
| 1960 | 1,131.0 | 1,646.3 | 12,069 | 2,943 | 15,012 | 143,655 | 0.084 |
| 1961 | 1,240.1 | 1,789.5 | 14,238 | 3,822 | 18,060 | 146,080 | 0.098 |
| 1962 | N/A | N/A | 16,448 | 5,456 | 21,904 | 148,612 | 0.111 |
| 1963 | 1,685.7 | 2,354.7 | 19,057 | 6,727 | 25,784 | 151,122 | 0.126 |
| 1964 | 1,825.8 | 2,511.4 | 20,542 | 7,909 | 28,451 | 153,597 | 0.134 |
| 1965 | 2,022.3 | 2,721.8 | 20,234 | 8,361 | 28,595 | 156,028 | 0.130 |
| 1966 | 2,316.2 | 3,015.9 | 21,819 | 8,231 | 30,050 | 158,597 | 0.138 |
| 1967 | 2,320.0 | 2,936.7 | 21,877 | 6,885 | 28,762 | 161,078 | 0.136 |
| 1968 | 2,594.0 | 3,140.4 | 23,321 | 7,066 | 30,387 | 163,428 | 0.143 |
| 1969 | 2,763.2 | 3,187.1 | 21,787 | 7,792 | 29,579 | 165,621 | 0.132 |
| 1970 | 2,924.3 | 3,199.5 | 24,288 | 11,783 | 36,071 | 167,548 | 0.145 |
| 1971 | 2,917.8 | 3,039.4 | 25,526 | 12,166 | 37,692 | 170,042 | 0.150 |
| 1972 | 3,017.8 | 3,017.8 | 28,868 | 11,185 | 38,053 | 171,808 | 0.156 |
| 1973 | 3,213.6 | 3,037.4 | 28,140 | 11,811 | 39,951 | 173,271 | 0.162 |
| 1974 | 3,569.9 | 3,066.9 | 30,575 | 10,271 | 40,846 | 174,825 | 0.175 |
| 1975 | 3,850.7 | 3,024.9 | 30,004 | 9,368 | 39,372 | 176,376 | 0.170 |
| 1976 | 4,185.2 | - | 32,352 | 9,346 | 41,698 | 178,395 | 0.181 |
| 1977 | 4,605.5 | - | 33,292 | 9,488 | 42,780 | 180,180 | 0.184 |

Notes:

i. Sources: Publishers Weekly
Bureau of the Census
The Bowker Annual
AAP Industry Statistics
The Mass Media: Aspen Institute Guide to Communications Industry Trends

ii. GNP deflator is used to convert to constant dollars.

TABLE II-C-9
(concluded)

iii. Data based on reports from book publishers to the "Weekly Record" of Publishers Weekly. It is not always comprehensive, certain types of books tend to be under-reported: Some textbooks, mass market paperbacks, and books from university presses.

iv. Definition of "books" has changed over time with most recent definition being any publication of 49 pages or more. This definition has been in use since 1959.

v. In 1967, another change occurred in counting procedure. Before this time, separate volumes in multi-volume sets were counted as if sold separately. After 1967, multi-volume sets were counted in this manner only if each volume had a different title and formed a distinct unit complete in itself.

vi. In 1976, a new system was adopted for reporting title count data in Publishers Weekly. In February, a preliminary report is issued after 12 months of work recording the books listed in the Weekly Record. In August, a final report appears, including the results of additional work, adding up to 18 months of effort, on the books of the same calendar year. Therefore, for the years 1976-77, comparable data to past years would be the preliminary report:

| | | | | |
|---|---|---|---|---|
| 1976 | 26,983 | 8,158 | 35,141 | 0.151 |
| 1977 | 27,413 | 8,056 | 35,469 | 0.152 |

Some industry statistics (see Table II-C-10) show a steady rise in the number of publishers, suggesting that entry is simple and frequent. However, this first view ignores an obvious consideration.

Growth in publishing is composed largely of small entrants. Table II-C-11 shows, for the period 1958-1972, growth in various size classes. These data show growth extremely concentrated in the smallest class of firm, a class whose market share simultaneously declined. The three largest classes (in 1972, 27 firms accointing for 45.4% of industry sales) gained substantial market share but accounted for only 4% of growth in number of firms.

3. Recent developments

a. Merger activity

Aggregate industry data conceal highly concentrated sub-markets. Table II-C-12 reports concentration ratios for all book publishing and for selected sub-markets. While "All Book Publishing" exhibits modest and stable concentration ratios, the sub-markets show consistently higher, and in some cases markedly increasing concentration over the 1958-1972 period.

The mass market paperbound book industry is even more highly concentrated. Table II-C-13 reports a 4-firm concentration ratio of 53% in 1976, with a single firm (Bantam) accounting for 20% of sales.

TABLE II-C-10

Number of Publishing Companies

| Year | From Bowker Records: Total Publishers | From Bowker Records: Selected Publishers | U.S. Census: Number of Firms |
|---|---|---|---|
| 1958 | 2,350 | 613 | 883 |
| 1963 | 3,557 | 556 | 936 |
| 1967 | 4,400 | 725 | 963 |
| 1972 | 6,113 | 959 | 1,120 |
| 1977 | 7,279 | 1,234 | 1,250 |
| 1978 | 10,803 | 1,213 | N/A |

Sources: Publishers Weekly
Census of Manufactures

Notes: The criterion for inclusion in Total Publishers is the publication of one new title during the year. The exceptional increase for 1978 is due in part to the inclusion of some existing publishers not heretofore reported.

The criterion for inclusion in Selected Publishers is the publication of five or more new titles during the year for data before 1972, three or more new titles afterwards.

TABLE II-C-11

Number, Dollars Earned, and Percentage Shares of Total Sales of U.S. Book Publishing Establishments, by Number of Employees, 1958-1972

| Number of Employees | Number of Establishments 1958 | 1963 | 1967 | 1972 | % of total growth, 1958-72, In this class |
|---|---|---|---|---|---|
| 1 to 4 | 411 | 471 | 496 | 604 | 64% |
| 5 to 9 | 155 | 152 | 135 | 160 | 2 |
| 10 to 19 | 104 | 114 | 104 | 134 | 10 |
| 20 to 49 | 93 | 117 | 116 | 125 | 11 |
| 50 to 99 | 58 | 48 | 63 | 67 | 3 |
| 100 to 249 | 51 | 53 | 62 | 59 | 3 |
| 250 to 499 | 15 | 19 | 27 | 29 | 5 |
| 500 to 999 | 9 | 10 | 10 | 17 | 3 |
| 1,000 to 2,499 | 7 | 8 | 8 | 9 | 1 |
| 2,500 and over | - | 1 | 1 | 1 | 0 |
| Total | 903 | 993 | 1,022 | 1,205 | 100% |

| | Dollars Earned in Millions 1958 | 1963 | 1967 | 1972 |
|---|---|---|---|---|
| 1 to 4 | $ 24.1 | $ 33.5 | $ 32.3 | $ 54.9 |
| 5 to 9 | 32.5 | 32.7 | 39.8 | 57.8 |
| 10 to 19 | 33.5 | 49.7 | 60.6 | 88.2 |
| 20 to 49 | 117.3 | 129.4 | 124.4 | 178.9 |
| 50 to 99 | 156.4 | 124.7 | 198.0 | 196.9 |
| 100 to 249 | 210.9 | 329.4 | 419.1 | 441.4 |
| 250 to 499 | 108.1 | 170.2 | 396.9 | 541.1 |
| 500 to 999 | 159.1 | 310.8 | 275.5 | 645.8 |
| 1,000 to 2,499 | 191.5 | 354.4 | 588.3 | 651.8 |
| 2,500 and over | - | (a) | (a) | (a) |
| Total | $1,033.4 | $1,534.8 | $2,134.8 | $2,856.8 |

| | Percent of Total Sales 1958 | 1963 | 1967 | 1972 |
|---|---|---|---|---|
| 1 to 4 | 2.33% | 2.18% | 1.51 | 1.92% |
| 5 to 9 | 3.15 | 2.13 | 1.86 | 2.02 |
| 10 to 19 | 3.24 | 3.24 | 2.84 | 3.09 |
| 20 to 49 | 11.33 | 8.43 | 5.83 | 6.26 |
| 50 to 99 | 15.14 | 8.13 | 9.27 | 6.89 |
| 100 to 249 | 20.41 | 21.46 | 19.63 | 15.45 |
| 250 to 499 | 10.46 | 11.09 | 18.59 | 18.94 |
| 500 to 999 | 15.40 | 20.25 | 12.90 | 22.61 |
| 1,000 to 2,499 | 18.54 | 23.09 | 27.57 | 22.82 |
| 2,500 and over | - | - | - | - |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

Notes: [a]Information deleted by government to avoid disclosing data for individual companies. Data included in total for next small category.

Source: Census of Manufactures.

TABLE II-C-12

Ownership Concentrations among U.S. Book Publishing Firms, by Percent of Shipments and Type of Books, 1958-1972

| Type of Books | 1958 | 1963 | 1967 | 1972 | % Change 1958-1972 |
|---|---|---|---|---|---|
| ALL BOOK PUBLISHING | | | | | |
| Total Shipments (millions of dollars) | $1010.7 | $1547.8 | $2255.3 | $2915.4 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | 16 | 18 | 16 | 16 | 0 |
| Eight Largest Firms | 26 | 29 | 27 | 27 | 1 |
| Twenty Largest Firms | 45 | 52 | 52 | 52 | 7 |
| Fifty Largest Firms | 65 | 73 | 75 | 75 | 10 |
| TEXTBOOKS | | | | | |
| Total Shipments (millions of dollars) | $281.7 | $471.1 | $733.6 | $809.6 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | 33 | 32 | 29 | 33 | 0 |
| Eight Largest Firms | 50 | 54 | 50 | 54 | 4 |
| Twenty Largest Firms | 76 | 81 | 79 | 80 | 4 |
| Fifty Largest Firms | 93 | 94 | 94 | 95 | 2 |
| TECHNICAL, SCIENTIFIC, PROFESSIONAL BOOKS | | | | | |
| Total Shipments (millions of dollars) | $116.0 | $156.3 | $240.2 | $403.0 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | 27 | 32 | 38 | 39 | 12 |
| Eight Largest Firms | 43 | 49 | 54 | 57 | 14 |
| Twenty Largest Firms | 71 | 68 | 74 | 76 | 5 |
| Fifty Largest Firms | 91 | 87 | 91 | 92 | |
| RELIGIOUS BOOKS | | | | | |
| Total Shipments (millions of dollars) | $58.6 | $81.1 | $110.4 | $131.2 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | 30 | 22 | 27 | 36 | 6 |
| Eight Largest Firms | 45 | 37 | 46 | 51 | 6 |
| Twenty Largest Firms | 70 | 65 | 74 | 76 | 6 |
| Fifty Largest Firms | 90 | 89 | 96 | 97 | 7 |

-continued

Table II-C-12
(concluded)

| Type of Books | 1958 | 1963 | 1967 | 1972 | % Change 1958-1972 |
|---|---|---|---|---|---|
| GENERAL TRADE BOOKS | | | | | |
| Total Shipments (millions of dollars) | $274.7 | $458.2 | $657.7 | $1006.7 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | 39 | 30 | 28 | 29 | -10 |
| Eight Largest Firms | 53 | 46 | 46 | 47 | -6 |
| Twenty Largest Firms | 72 | 59 | 70 | 74 | 2 |
| Fifty Largest Firms | 90 | 89 | 91 | 92 | 2 |
| GENERAL REFERENCE BOOKS | | | | | |
| Total Shipments (millions of dollars) | $163.6 | $207.3 | $216.3 | $235.2 | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | -- | 87 | 81 | 71 | -16 |
| Eight Largest Firms | -- | 96 | 91 | 82 | -14 |
| Twenty Largest Firms | -- | 100 | -- | 94 | -6 |
| Fifty Largest Firms | -- | | 100 | 99+ | -- |
| OTHER BOOKS AND PAMPHLETS | | | | | |
| Total Shipments (millions of dollars) | $96.0 | $154.8 | $200.1 | -- | |
| % of Total Shipments by: | | | | | |
| Four Largest Firms | -- | 37 | 48 | -- | -- |
| Eight Largest Firms | -- | 48 | 61 | -- | -- |
| Twenty Largest Firms | -- | 68 | 78 | -- | -- |
| Fifty Largest Firms | -- | 85 | 92 | -- | -- |
| BOOK PUBLISHING NOT SPECIFIED BY KIND OF BOOK | | | | | |
| Total Receipts (millions of dollars) | $20.2 | $18.9 | $97.0 | $155.6 | |

Source: Census of Manufactures

TABLE II-C-13

Concentration Ratios for
Mass Market Paperback Publishing

| Year | % of Total Sales Accounted for by 4 Largest Companies | 8 Largest Companies |
|---|---|---|
| 1973 | 51 | 76 |
| 1976 | 53 | 81 |

| Publishers by Rank | | Market Share | Annual Sales (1976) |
|---|---|---|---|
| 1. | Bantam Books | 20% | |
| 5. | Fawcett | 9 | $40 million |
| 11. | Popular Library | 2.5 | $10 million |

Source: Department of Justice.

Authors' Guild data report that 10 book club publishers accounted for 89% of book club net sales in 1976; two firms--Doubleday (Literary Guild and many specialized clubs) and Book-of-the-Month---accounted for over 50% of book club sales.

The Census of Manufactures should provide recent figures sometime next year--1977 data. But the policy implications of high sub-market concentration ratios by themselves are unclear. Though analysis of concentration ratios by industry category is a standard tool in industrial organization analysis, it tells us nothing by itself about the conditions that underlie concentration and therefore supports no clear policy stance.

b. Vertical Integration

Vertical integration has occurred in two directions:

1. The Distribution Relationship

As we discussed in section 1-b, mass market publishers and their distributors are closely linked through exclusive distribution contracts, contracts requiring distribution of no "competing" line, or through ownership connections. These arrangements can be viewed from two perspectives: as barriers to entry of new publishers into the mass market or as mechanisms for dealing with uncertainty.

The entry barrier is apparent. To merchandise mass market paperbacks, a publisher needs a way to distribute to regional wholesalers. Because of the high output of new titles (in 1972, 2200 mass market releases, or nearly 200 per month) and limitations on retail display rack space, distributors play an active role in promoting titles

to wholesalers and, indirectly, to retailers. To the extent that an entrant must simultaneously begin operations at two stages of production, it must overcome greater barriers of acquisition of capital and expertise than would be required to enter only one stage of the industry.

Certainly research is needed to determine whether this integration has anticompetitive effects and whether such effects are the intent of the arrangements. On the other hand, research should also explore whether the arrangements are the results of a search for more efficient ways to organize.

We have previously spoken of books as products differentiated by class. At a closer level of analysis, each title is a differentiated product, i.e., usually a product with an extremely short lifespan (two weeks is a typical display period in mass market outlets).

Advance knowledge of demand for a specific title is unavailable. The publisher has the task of estimating demand, so as to specify a production run. The publisher also assumes the risk of error: authors receive advances which are non-refundable pre-payments of royalties, and the marketing institutions from independent distributor to retailer receive credit on unsold copies.

However, decisions by distributors and wholesalers affect the accuracy of a publisher's demand estimates. Sales depend on effective

merchandising through to the retail level. The industry tendency--eroding only recently--for national distributors to "force-feed" wholesalers a publisher's line could give them key strategic control over the success of particular titles. The need to coordinate distributors' decisions with mass market publishers' planning provides an incentive derived from efficient market considerations to integrate either through joint ownership or other mechanisms that effect a long-run joining of interests.

2. Commissioned work

Commissioned work--manuscripts written to specification implementing ideas originated by publishers--may be an impediment to new author access to book markets. To what extent various sub-markets represent publisher-originated, not author-originated, manuscripts remains unknown.

No information on market extension mergers--mergers involving companies selling to different customer classes--could be found. To the extent mergers across sub-markets (for example, a hardcover house acquiring a mass market paperback publisher) make current industry conventions on reprint subsidiary rights inappropriate, they deserve investigation.

The FCC

The Federal Communications Commission is the federal agency most directly concerned with the behavior and structure of the television industry. The FCC has been charged with the responsibility of regulating the broadcast industry in the public interest, although the determination of what constitutes the public interest has been left up to the FCC. That localism is part of the FCC interpretation of public interest and the effects of policies thought favorable to localized broadcasting have already been discussed. FCC rules on group ownership have also been mentioned. Considering these and other FCC policies it is fair to say that the current structure of the television industry is largely a product of FCC decisions.

The FCC also influences broadcasting content, both directly and indirectly. It is "understood" by stations that broadcasting in the public interest implies the presentation of some public service programming, which explains the presence of some of the cultural and religious programs which draw small audiences.

FCC concern with certain types of content is stated explicitly in the Fairness Doctrine, which requires that responsible parties representing differing viewpoints on controversial issues must be given air time, and the equal time access rule which requires that equal time at an equal price be made available to competing political candidates.

It is through the license renewal process that the FCC exerts pressure on stations to meet its content objectives. Station licenses must be renewed every three years at which time stations are required to show that their programming has served the public interest. Licenses are rarely revoked, but the economic value of a station license is great enough that the threat of non-renewal is usually sufficient to ensure compliance.

The prime time access rule, announced in 1970, was a response to program suppliers who were lobbying the FCC for an increase in broadcast time open to nonnetwork programming. The prime time access rule requires that stations in the top fifty markets allocate at least one hour of prime time to nonnetwork programming daily. The rule has expanded the market for syndicated programming and led to an increase in locally originated programs, but these changes have come at the expense of more popular fare previously available.

D. Other Media

1. Cable TV

Near the end of the 1940's the early cable entrepeneurs discovered that by building large, strategically located antennas they could receive over-the-air television signals and retransmit them by cable to households which formerly had poor or nonexistent television reception.

The growth of the cable industry during the 1950's and early 1960's (see table II-D-1 for numerical trends) followed this pattern, new cable systems being introduced primarily in rural areas where over-the-air television reception was poor or in markets where, due to FCC station allocation decisions, only one or two stations were located and viewers were without three network service. Penetration of larger, urban markets was not initially attempted. The received wisdom of the time was that most urban viewers, already receiving the three networks and possibly independent stations too, would not find cable worth the subscription fee.

However, by the mid-1960's a few members of the cable industry had decided that the combination of imported independent signals plus the enhanced reception offered by cable might make CTV systems financially viable in urban areas. In 1966 and 1967 cable was introduced in New York City and Los Angeles respectively.

As early as 1956 over-the-air broadcasters were petitioning the FCC to assert regulatory authority over the CTV industry. The FCC was initially reluctant, claiming it lacked jurisdiction, but with cable penetration of urban markets the clamor intensified and in 1966 the FCC announced that the CTV industry would henceforth be subject to FCC regulation.

Table II-D-1

The Growth of Cable Television Systems, 1952-1977

| Year | Number of | Number of Subscribers (add 000) | Percent of TV Homes with Cable | Average Number of Subscribers per System |
|---|---|---|---|---|
| 1952 | 70 | 14 | 0.1% | 200 |
| 1953 | 150 | 30 | 0.2 | 200 |
| 1954 | 300 | 65 | 0.3 | 217 |
| 1955 | 400 | 150 | 0.5 | 375 |
| 1956 | 450 | 300 | 0.9 | 667 |
| 1957 | 500 | 350 | 0.9 | 700 |
| 1958 | 525 | 450 | 1.1 | 857 |
| 1959 | 560 | 550 | 1.3 | 982 |
| 1960 | 640 | 650 | 1.4 | 1,016 |
| 1961 | 700 | 725 | 1.5 | 1,036 |
| 1962 | 800 | 850 | 1.7 | 1,063 |
| 1963 | 1,000 | 950 | 1.9 | 950 |
| 1964 | 1,200 | 1,085 | 2.1 | 904 |
| 1965 | 1,325 | 1,275 | 2.4 | 962 |
| 1966 | 1,570 | 1,575 | 2.9 | 1,003 |
| 1967 | 1,770 | 2,100 | 3.8 | 1,186 |
| 1968 | 2,000 | 2,800 | 4.4 | 1,400 |
| 1969 | 2,260 | 3,600 | 6.1 | 1,593 |
| 1970 | 2,490 | 4,500 | 7.6 | 1,807 |
| 1971 | 2,639 | 5,300 | 8.8 | 2,008 |
| 1972 | 2,841 | 6,000 | 9.6 | 2,112 |
| 1973 | 2,991 | 7,300 | 11.1 | 2,441 |
| 1974 | 3,158 | 8,700 | 13.0 | 2,755 |
| 1975 | 3,506 | 9,800 | 14.3 | 2,795 |
| 1976 | 3,651 | 10,800 | 15.5 | 2,958 |
| 1977 | 3,800 | 11,900 | 17.3 | 3,132 |

Source: Sterling and Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends, New York, 1978, p. 56.

Original Sources: Annual issues of Television Factbook, Television Digest Inc. and Statistical Trends in Broadcasting annual.

The rationale offered for the regulatory intervention was the alleged threat of CTV to the existing broadcast system and, possibly to viewer welfare. Concern was expressed about the viability of independent broadcasters, especially UHF stations, in the face of cable competition. It was also argued that viewers unable to afford cable would suffer from a decline in the quality and variety of over-the-air broadcasting as cable competition for programming intensified and independent stations were driven off the air.

Rules announced in 1966 prohibited cable systems from importing distant signals into the top 100 markets. In 1972 these rules were relaxed slightly to allow distant signal importation if it was necessary to the provision of three network and three independent signals to cable subscribers in the top fifty markets, three network and two independent signals in the second fifty markets, or three network and one independent signal in the smaller TV markets. However, distant signals could be imported only as long as they did not 'leapfrog' stations closest to the local market. The leapfrogging restrictions were relaxed in 1975, but until that time the effect of FCC regulation had been to make continued cable penetration of the top markets dependent upon system orginated programming.

The general conclusion of empirical studies of the cable industry* has been that the fears initially expressed by the FCC were

*For an in depth discussion of the major cable studies see S. M. Besen, B. M. Mitchell, R. G. Noll, B. M. Owen, R. E. Park, and J. N. Rosse, "Economic Policy Research on Cable Television: Assessing the Costs and Benefits of Cable Deregulation". P. W. MacAvoy (ed.). Deregulation of Cable Television, Washington, D. C.: American Enterprise Institute for Public Policy Research, 1977.

without foundation. Independent stations, both UHF and VHF, benefit from the presence of cable. UHF audiences are increased due to improved picture quality and while VHF independents lose some local viewers, they are more than compensated by the audience gained in distant markets.

Cable also seems to pose little threat to the programming received by non cable subscribers. While subscribers would benefit from an increase in variety and choice among programs (with the carriage of forty or more signals a possibility, cable TV has the potential for overcoming the diversity problems associated with over-the-air television), audience diversion would not be so great as to threaten the existence of over-the-air stations and networks.

The major losers from the continued development of cable would be VHF network affiliates. Currently their average rate of profit is considerably above the average for other industries and their economic viability does not seem to be seriously threatened.

The future growth of the cable TV industry will probably be tied to the development of new services as much as it will be to continued geographic expansion. Pay TV and originated programs with advertiser support are expected to become the major sources of cable revenue in the 1980's and are already making cable companies serious competitors of the networks in the market for television programming.

The public good characteristics of television programming which motivated the development of networks in the over-the-air television industry, are also operative on cable television; but until recently restrictions on distant signal importation and technological limitations making simultaneous broadcasting across multiple systems

economically infeasible have stood as a barrier to cable networking. Signal relay by domestic satellite has overcome the technological barrier and large, multisystem cable companies are now acquiring networklike characteristics. However the development of a nationwide cable network has been prevented by the nonparticipation of the major companies. This may be due to the fact that several of the largest CTV firms have integrated backwards into the program supply industry and hope to realize possible gains associated with networking which can be captured only by integrated firms.

Table II-D-2

Ownership of CATV Systems

| Ownership Category | Systems | % of Total |
|---|---|---|
| Broadcaster | 1,179 | 30% |
| Newspaper | 474 | 12 |
| Book or Magazine Publisher | 501 | 13 |
| Program Production Distributor | 772 | 20 |
| Theatre | 301 | 8 |
| Telephone | 73 | 2 |
| Communication Subscriber | 106 | 3 |
| Cable or Broadcast Equipment | 422 | 11 |

Source: Television Factbook, 1978
Television Digest, Inc.

2. Magazines

The magazine industry displays many of the characteristics of other mass media. It is, perhaps, a perfect example of monopolistic competition. There exist thousands of publications featured by a remarkable degree of product differentiation. Entry and exit occur frequently as publishers strive to identify, exploit, and even create market segments.

Of course, one is apt to stress the numerous failures of several general interest, broadly circulating magazines. The Saturday Evening Post, Look, and Life were all rather prominent publications which succumbed to market pressure. However, the growth and appearance of numerous more specialized periodicals merely serves to emphasize the fact that any medium dependent on advertising dollars must successfully isolate a submarket by packaging a product which appeals to some identifiable population segment.

Table II-D-3 illustrates the growth in total numbers of periodicals published. There were approximately 10,000 periodicals in 1975, a 40 percent increase since 1950. Of course, the existence of numerous submarkets and the complex interactions of advertising and subscription sales make such data aggregations less reliable in describing the industry.

Table II-D-4 indicates that annual revenue growth has been steady although, since the late sixties there have been slight decreases in constant dollar terms. Advertising revenues account for about 54 percent

TABLE II-D-3

NUMBER OF PERIODICALS IN U.S.
BY PUBLICATION SCHEDULE
1950-1975

| Year | Total | Weekly | Monthly |
|---|---|---|---|
| 1950 | 6,960 | 1,443 | 3,694 |
| 1955 | 7,648 | 1,602 | 3,782 |
| 1960 | 8,422 | 1,580 | 4,113 |
| 1965 | 8,990 | 1,716 | 4,195 |
| 1970 | 9,573 | 1,856 | 4,314 |
| 1975 | 9,657 | 1,918 | 4,087 |
| % Charge 1950-75 | 39% | 33% | 11% |

Source: Sterling & Haight, op. cit., from Ayer Directory of Publications.

TABLE II-D-4

U.S. PERIODICALS INDUSTRY

REVENUES

| Year | Receipts from Periodical Products | |
|---|---|---|
| | Current Dollars* (millions) | Percent Advertising |
| 1923 | $ 351 | 61% |
| 1933 | 269 | 52 |
| 1947 | 1,020 | 60 |
| 1958 | 1,639 | 62 |
| 1967 | 2,668 | 62 |
| 1975 | 3,817 | 54 |

*Inflated by GNP

Sources: Sterling & Haight, The Mass Media: Aspen Institute Guide to Communication Industry Trends from Census of Manufacturers.

of the totals. This percentage has been falling slightly due to the increased importance of smaller, specialized periodicals which typically rely more on subscription income.

Recall that advertising revenues for the magazine industry as a percentage of U.S. totals have declined since the late 1940's. In addition, the distribution of this total has moved in favor of specialized monthlies and, to a lesser degree, the important category of women's magazines. This shift has occurred at the expense of the national, general interest weeklies.

Table II-D-5 provides circulation data on some of the major periodicals for recent years. Audiences are still substantial. Heading the list is T.V. Guide, with a circulation of over 20 million or one-quarter of all U.S. households. Also prominent are Readers' Digest, several women's magazines, and the major news periodicals, Newsweek, Time and U.S. News. These latter three play important rules in the creation and dissemination of news.

As indicated earlier, the national publications were most affected by the development of television. Electronic media proved to be more effective at reaching broadly dispersed, general audiences. In response to this challange, the magazine industry has adopted computer technologies in order to compete more efficiently. The major periodicals now zone editions, thereby geographically segmenting audiences. Advertising no longer need be of the purely national variety. It is not uncommon to find ads for local restaurants or

TABLE II-D-5

CIRCULATION OF MAGAZINES,

LATEST U.S. TOTALS

| NAME OF MAGAZINE | ISSUE DATE† | TOTAL U.S. CIRCULATION | RATIO TO TOTAL U.S. HOUSEHOLDS |
|---|---|---|---|
| Better Homes | October, 1977 | 7,870,420 | 10.5% |
| Cosmopolitan | January, 1977 | 2,382,564 | 3.2% |
| Family Circle | April, 1976 | 8,500,526 | 11.3% |
| Farm Journal | November, 1977 | 1,602,603 | 2.1% |
| Fortune | March, 1977 | 524,194 | .7% |
| Good Housekeeping | February, 1975 | 5,125,899 | 6.8% |
| Ladies Home Journal | April, 1976 | 5,814,694 | 7.7% |
| McCall's | April, 197[illegible] | 6,657,631 | 8.9% |
| National Geographic | June, 1977 | 7,895,550 | 10.5% |
| New Yorker | May 2, 1977 | 464,429 | .6% |
| Newsweek | March 31, 1975 | 2,912,584 | 3.9% |
| Outdoor Life | February, 1977 | 1,716,051 | 2.3% |
| People | May 16, 1977 | 1,892,396 | 2.5% |
| Playboy | November, 1976 | 5,795,572 | 7.7% |
| Reader's Digest | May, 1977 | 17,842,688 | 23.7% |
| Redbook | January, 1976 | 4,492,982 | 6.0% |
| Seventeen | September, 1975 | 1,447,155 | 1.9% |
| Sports Illustrated | May 15, 1977 | 2,191,455 | 2.9% |
| Time | May 16, 1977 | 4,357,279 | 5.8% |
| TV Guide | March 12, 1977 | 20,129,084 | 26.8% |
| U.S. News | March 28, 1977 | 2,148,473 | 2.9% |
| Vogue | February, 1977 | 792,029 | 1.1% |
| Woman's Day | December, 1976 | 8,723,200 | 11.6% |
| **NATIONAL NEWSPAPERS** | **ISSUE DATE†** | **TOTAL U.S. CIRCULATION** | |
| Christian Science Monitor | September 30, 1977 | 166,654 | |
| Wall Street Journal | March 31, 1978 | 1,541,821 | |

Source: Circulation 78/79, American Newspaper Markets, Inc.

entertainment in broadly circulated magazines. Finally, to make the medium more accessible to advertisers with limited advertising budgets, technology now permits fractional message placements. That is, one can place ads in one of every four or eight magazine copies.

In comparison to the newspaper industry, one finds a pronounced absence of integration in the various stages of the productive process. In particular, separate agents govern the creation, transmission, duplication, and distribution of the product. Of course, the severe time constraints as well as the geographically confined nature of newspaper markets mitigates against a similar structure in that industry. For magazines, however, this is possible and desirable. The pronounced scale economies which are evident in the distribution stage are not imposed on the complete process.* Thus, participation in the other levels remains highly competitive and, therefore, responsive to the public interest.

*There remains significant concentration in the distribution of magazines. The agents of this system are identical to those in the distribution of mass paperbacks for a discussion of the nature of this process and possible implications, see Section II-C- .

Radio

Until the 1950's, the structure of radio had the characteristics now displayed by the television industry. Radio had a distinctly national orientation, for both entertainment and advertising markets, and a pivotal role was played by networks. However, television made immediate inroads and the radio industry, as a matter of survival, drastically altered its character.

We have already documented the reduced importance of radio in general as an advertising medium. Network advertising dollars have fallen dramatically. Radio time sales for national networks have fallen to under five percent of total advertising revenues. Table II-D-6 indicates the reduced importance of network-owned stations. On the other hand, lcoal advertising and national non-network advertising have increased quite rapidly. It appears, therefore, that radio's response to the effective domination by television as a national general interest medium has been to specialize and focus on more limited audience submarkets.

The evolving structure emphasizes regional programming, the creation of which involves very low fixed costs. Capital requirements are also minimal making entry into the industry quite easy. Those facts have resulted in a steadily growing number of stations.

More importantly, in 1955 the government first allowed non broadcast services to be transmitted by FM stations, thus increasing their income potential and economic viability. Also, the 1965 FCC

Table II-D-6
Radio Station Revenues
1946-1976
(millions)

| Year | Stations[a] Total | Stations[a] Network O&O | Revenue Total | Revenue Network O&O | Income Total | Income Network O&O |
|---|---|---|---|---|---|---|
| 1946 | 1,025 | 29 | 323 | 102 | 76.5 | 19.4 |
| 1956 | 2,966 | 19 | 481 | 70 | 49.2 | .4 |
| 1966 | 4,019 | 19 | 853 | 79 | 100.6 | 3.6 |
| 1976 | 4,363 | 17 | 1,687 | 144 | 157.4 | 10.4 |

% Network O&O

| Year | Stations | Revenue | Income |
|---|---|---|---|
| 1946 | 2.8% | 31.6% | 25.4% |
| 1956 | .6 | 14.6 | .8 |
| 1966 | .5 | 9.3 | 3.6 |
| 1976 | .4 | 8.5 | 6.6 |

[a]All stations reporting to the FCC.

Source: Television Factbook, 1978 Services Volume, Television Digest, Inc.

non-duplication requirements resulted in more FM program diversity. FM is probably the most rapidly growing medium in the United States. The growth is documented in Table II-D-7. FM stations are now over 40 percent of all radio stations.

Market segmentation and product differentiation have played a central roll in FM development. The achievement of a technology which permits stereo broadcasting enabled FM to achieve a definite advantage in the transmission of high quality audio signals. For music and/or recording enthusiasts this is extremely significant. Recent developments in noise-reduction techniques are apt to further promote differentiation on this basis.

Table II-D-7
Radio Stations
1946-76

| Year | Am Stations | Fm Stations | % Fm |
|---|---|---|---|
| 1946 | 913 | 48 | 5% |
| 1956 | 2,814 | 536 | 16 |
| 1966 | 4,065 | 1,730 | 30 |
| 1976 | 4,471 | 3,511 | 44 |

Source: Television Factbook, 1978, Services Volume, Television Digest, Inc.

Table II-D-8
Radio Time Sales,
Network, Spot & Local
1937-67
(millions)

| Year | National Network | Regional Network | National non-Network | Local | Total |
|---|---|---|---|---|---|
| 1937 | 56.2 | 2.9 | 23.1 | 35.7 | 117.9 |
| 1947 | 127.7 | 7.0 | 91.6 | 147.8 | 374.1 |
| 1957 | 48.0 | 3.7 | 169.5 | 316.5 | 537.7 |
| 1967 | 47.6 | 2.6 | 289.8 | 609.2 | 960.0 |

% of Total

| Year | National Network | Regional Network | National non-Network | Local |
|---|---|---|---|---|
| 1937 | 48% | 3% | 20% | 30% |
| 1947 | 34 | 2 | 24 | 40 |
| 1957 | 9 | 0.6 | 32 | 59 |
| 1967 | | 0.3 | 30 | 63 |

Source: Television Factbook, 1978 Services Volume, Television Digest, Inc.

## III Studies of Media Markets

The purpose of this section is to illustrate the way in which media markets are structured. To that end, we look first at the San Francisco Bay area to show the "layering" of competition among newspapers. We then turn to the New York area market for a somewhat more detailed examination. Before beginning those tasks, several comments are in order.

First, it should be clearly understood that we are illustrating media markets, not defining "relevant" markets in any real sense. It is not possible to define a relevant market in the context of monopolistic competition until one knows what question is being asked about what firm or group of firms. One needs to know what firm or firms are central to the question in order to know at which seam in the fabric of monopolistically competitive markets along which to begin examination. The question asked then affects the direction and extent of search. It is our intention, however, that our discussion be useful to practitioners by illustrating approaches to and data sources for market definition studies.

As corollary to the above, we want to make clear that the question of what constitutes the market for a particular medium or firm is not an easy one to resolve. Media products are differentiated by location and by type of audience appeal, and compete at the level of the firm in both advertiser and reader-viewer-listener market places. There are no such things as perfect substitutes in these markets, and it is hard to find

media products that are totally unrelated to one another in a given geographical area. This comment is not intended to mean that the investigator must include every possible media enterprise in his examination of every issue. Very much to the contrary, we want to emphasize that it is necessary to make an explicit judgment about the extent of market relevant to the question at hand, guided by theory, empirical investigation, and a good understanding of the particular market's institutions. There are no formula answers.

Finally, you will note that we have not paid much explicit attention to advertising markets in what follows. This does not mean that those markets were not important. Quite to the contrary, advertising markets are almost always of over-riding importance in media industries. Further, it is almost never possible to consider advertising and reader-viewer-listener markets independently because of their close inter-relationship. However, since audiences are necessary before advertising can be sold and since we have had to put limits on both our investigation and our exposition, we have chosen to emphasize competition for audiences.

A. The "Umbrella" Structure of Newspaper Competition

In competing for advertising dollars, daily newspapers have a comparative advantage vis-a-vis the other media in developing high density local audiences. To this end, dailies have generally developed newspaper products with the broadest possible reader appeal in their local markets.

Given scale economies and the public good character of newspaper content, it is not surprising that face-to-face competition survives, with few exceptions, only in the very largest markets where the relative importance of scale economies is of least consequence. Competition among newspapers exists and is important, however. Ignoring the few face-to-face cases, it can best be understood in terms of competitive "layers."

The layering or "umbrella" effect is apparent in the San Francisco Bay area, as it is in the most media rich metropolitan areas. The Chronicle and Examiner, morning and evening papers published by an agency shop, are the largest papers in the area and are located at the commercial and population center, San Francisco. Their circulations are quite dense in the proximate community, but become less dense as one moves farther away from the center of the market. The circulation region of the papers covers most of Northern California, far beyond the Bay area itself. However, decreasing circulation density of the papers casts a decreasingly heavy "filtered shade" on the smaller newspapers located in the region. The Chronicle-Examiner

FIGURE III-A-1

OUTLINE MAP OF SAN FRANCISCO BAY AREA

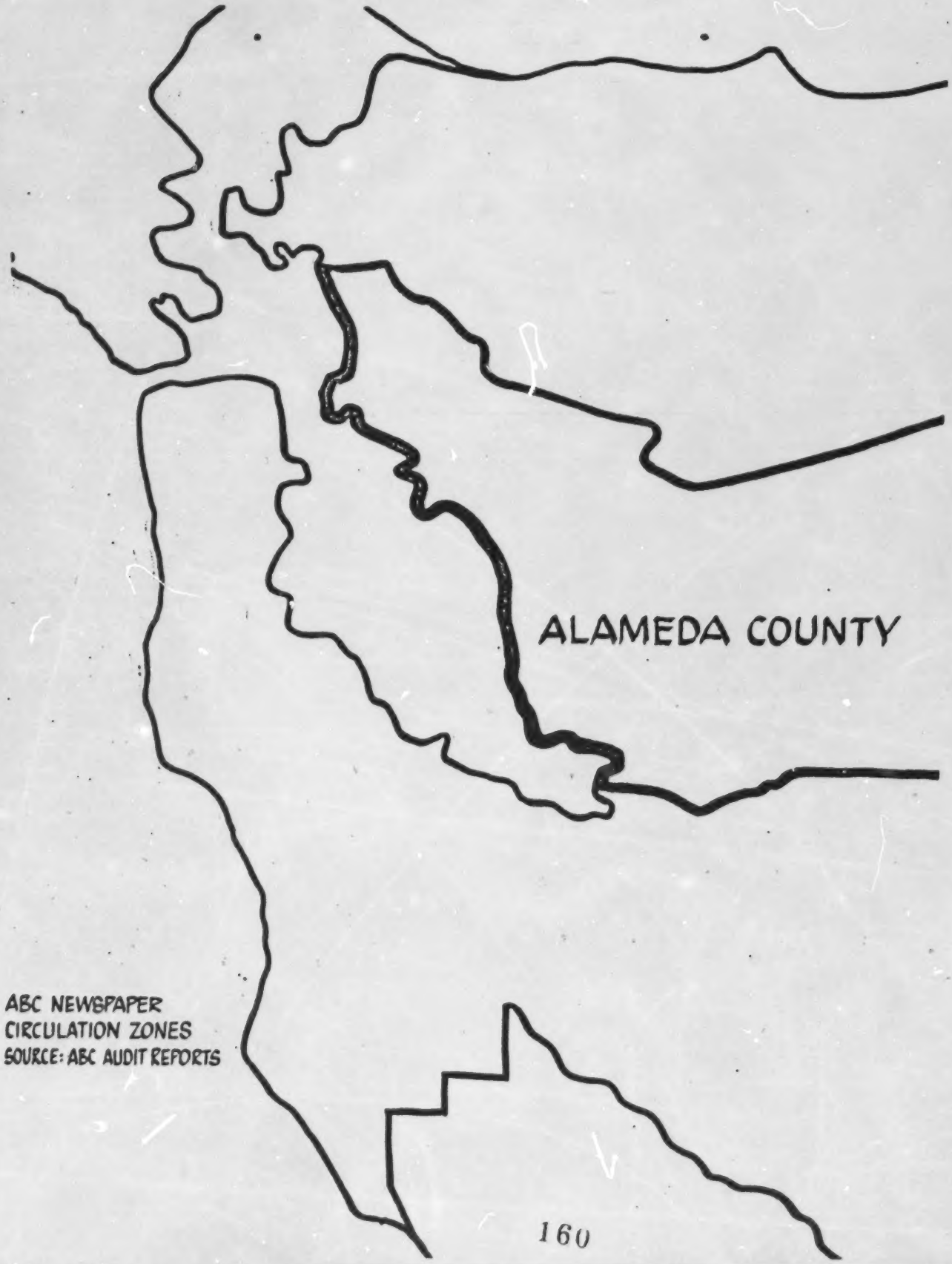
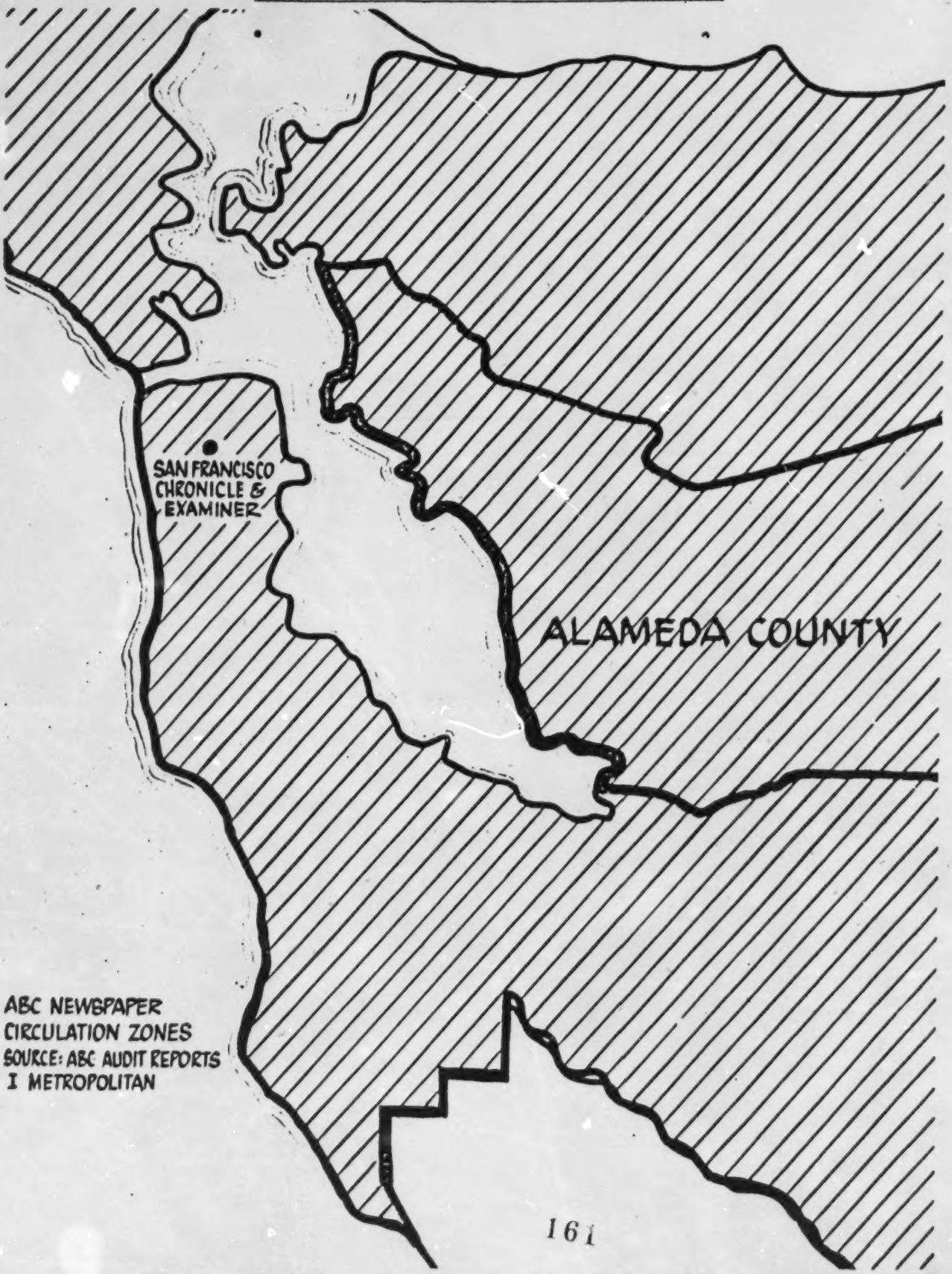


FIGURE III-A-2

BAY AREA NEWSPAPERS,

CIRCULATION ZONE OF THE METROPOLITAN PAPERS



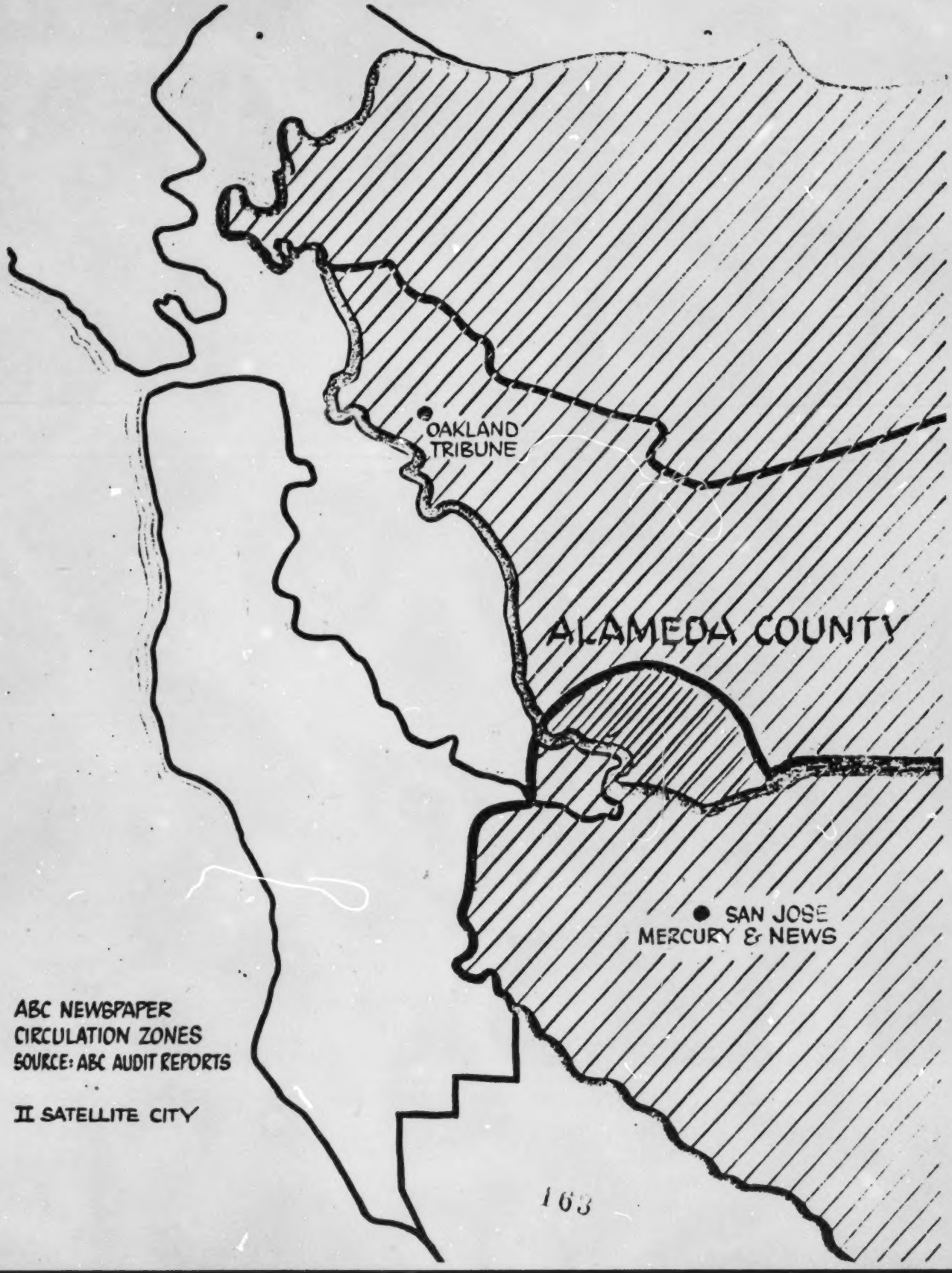
comprises the first or metropolitan center layer of newspapers in the Bay area.

Materials prepared for an antitrust action tried in San Francisco District Court, Knutsen vs Daily Review, illustrate this layering effect quite well. Figure III-A-1 shows an outline map of the San Francisco Bay area. Figure III-A-2 shows a shaded overlay representing the San Francisco Chronicle and Examiner primary market area in Northern California. For future reference, note that the Daily Review is located in Hayward, California, which is about halfway up the East side of the Bay in Alameda County, just below Oakland

The second layer of newspapers may be called the satellite city layer. In the Bay area, this second layer consists of the Oakland Tribune and the San Jose Mercury-News. Again, the circulations of these papers are densest in their proximate communities, but thin out as one moves to the boundaries of their circulation zones. Note that their circulation zones scarcely overlap one another, but that together they cover most of the Bay area with the exception of the immediately proximate community of the Chronicle-Examiner. Thus, the second layer of satellite city newspapers lies in the circulation zone "shade" of the first layer paper, and, in turn, "shade" the third layer of papers. See Figure III-A-3.

There are some sixteen suburban newspapers in the Bay Area. These include the Hayward Daily Review, the paper that was the focus of interest for the study reported here, the Palo Alto Times, the San Rafael Independent-Journal, the Berkeley Gazette, and others. Each of these suburban papers

FIGURE III-A-3
BAY AREA NEWSPAPERS,
CIRCULATION ZONES OF SATELLITE CITY PAPERS



has a much smaller circulation zone. Their zones scarcely overlap one another, but taken together they also cover most of the Bay area with the exceptions of the immediately proximate communities of the first and second layer newspapers. The circulation "shade" cast there by the larger newspapers is too deep for the survival of smaller daily newspapers. See Figure III-A-4.

A fourth layer of newspaper development is a very large grab bag of once, twice, or thrice weeklies,quasi-newspaper shopping guides, free distribution, partial distribution or throwaway publications, etc. Although such publications may be found everywhere in the area, they are most common away from the proximate communities of papers in the first three layers, least common in the proximate communities of the more localized suburban papers, and progressively more common in the proximate communities of layer two and layer one newspapers. Figure III-A-6 illustrates this layer of competition for Alameda County papers only. Of course quite large areas of Alameda County in the south and east are thinly populated, so one does not expect to find many newspapers there at all.

Generalizing, the first level newspapers located in the largest cities have the largest circulation, the lowest per unit costs, the most extensive circulation region, and the lowest density of circulation throughout that region. Their comparative advantage in advertising markets vis-a-vis other newspapers lies with national and regional advertisers for whom the whole circulation area is valuable. They are at a comparative disadvantage relative to smaller newspapers in serving independent grocers,

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FIGURE III-A-4
BAY AREA NEWSPAPERS,
CIRCULATION ZONES OF SUBURBAN NEWSPAPERS

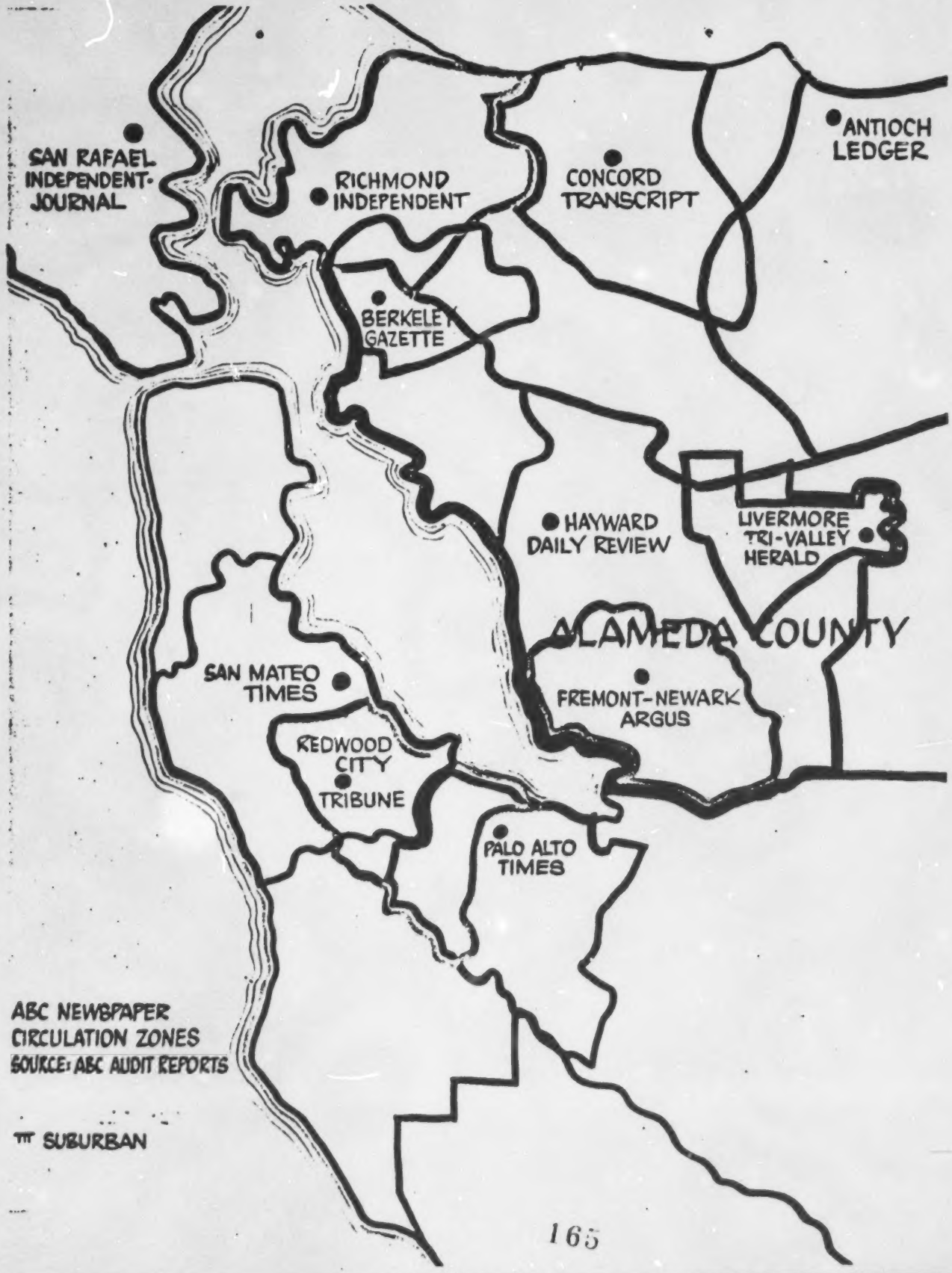


FIGURE III-A-6
SMALLER BAY AREA PERIODOCALS

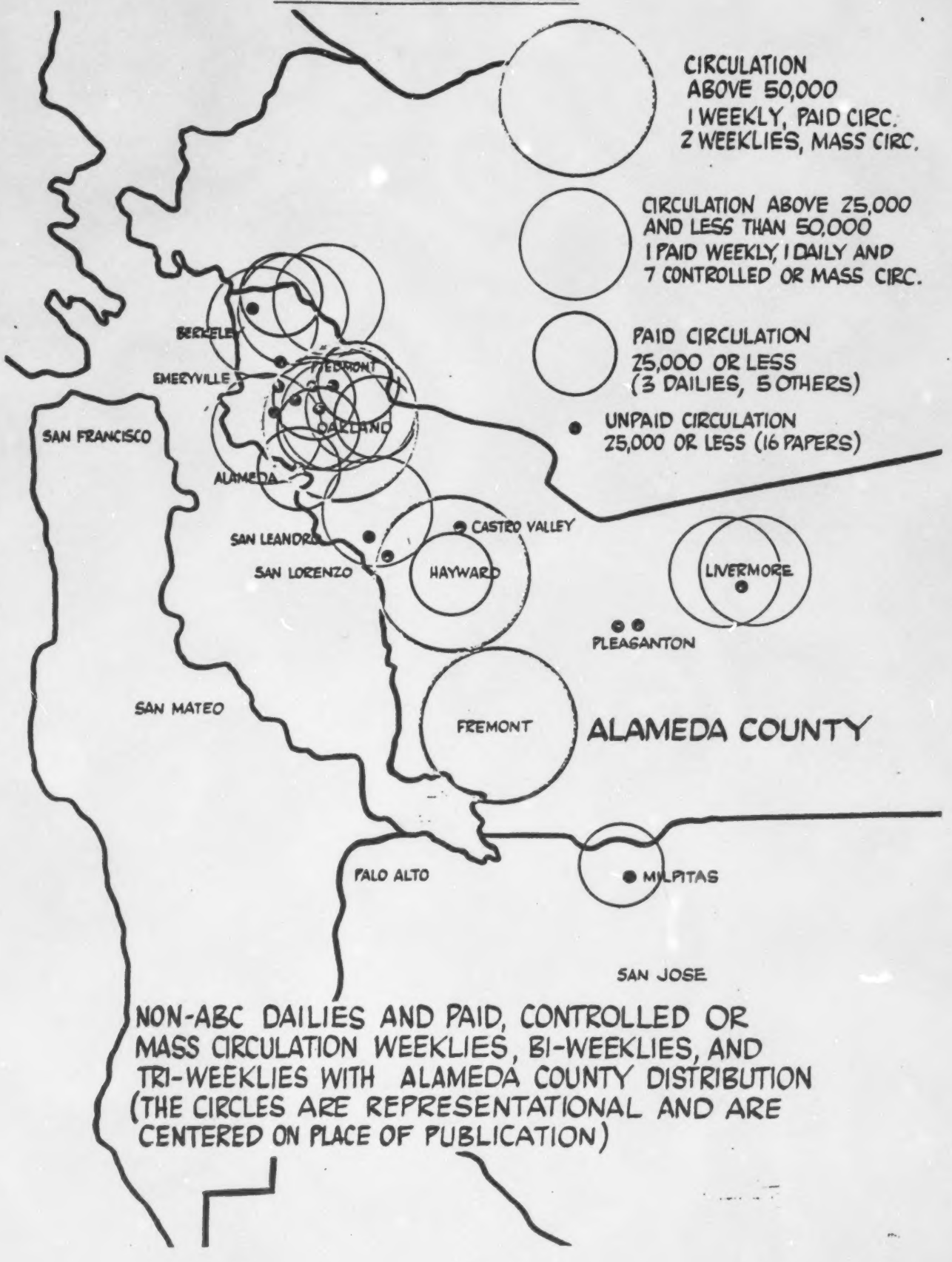


TABLE III-A-1
BAY AREA NEWSPAPERS

| FIGURE III-A- | | DAILY CIRCULATION | TYPE OF CIRCULATION | FREQUENCY OF PUBLICATION |
|---|---|---|---|---|
| 2 | Metropolitan Daily Newspapers | | | |
| | San Francisco Chronicle and Examiner. | 640,932 | paid | daily |
| 3 | Satellite Daily Newspapers | | | |
| | Oakland Tribune | 189,871 | paid | daily |
| | San Jose Mercury News | 207,167 | paid | daily |
| 4 | Suburban Daily Newspapers (ABC Members) | | | |
| | Antioch Ledger | 10,827 | paid | daily |
| | Berkeley Gazette | 11,814 | paid | daily |
| | Concord Transcript | 6,899 | paid | daily |
| | Fremont-Newark Argus | 10,366 | paid | daily |
| | Hayward Daily Review | 40,304 | paid | daily |
| | (Livermore) Tri-Valley Herald | 11,982 | paid | daily |
| | Palo Alto Times | 43,489 | paid | daily |
| | Redwood City Tribune | 20,255 | paid | daily |
| | Richmond Independent | 33,610 | paid | daily |
| | San Mateo Times | 42,457 | paid | daily |
| | San Rafael Independent-Journal | 40,718 | paid | daily |
| 6 | Other Newspapers circulated in Alameda County. | | | |
| | - Circulation above 50,000. | | | |
| | Catholic Voice | 65,000 | paid | weekly |
| | Dollar Saver | 127,000 | mass | weekly |
| | *Hayward Daily Review Shopping News | 128,500 | mass | weekly |
| | - Circulation above 25,000 and less than 50,000 | | | |
| | Berkeley Barb | 30,000 | paid | weekly |
| | Berkeley Wed. Shopper | 27,500 | mass | weekly |
| | Classified Flea Market | 47,000 | controlled | bi-weekly |
| | Daily Californian | 45,000 | controlled | daily |
| | East Oakland News | 37,200 | mass | weekly |
| | Friday Observer | 40,000 | controlled | weekly |
| | The Independent (Livermore) | 28,000 | controlled | 3 times week |
| | Oakland Post | 30,000 | controlled | twice weekly |
| | Tri-Valley News | 37,000 | controlled | 3 times week |
| | - Paid Circulation - 25,000 or less | | | |
| | Alameda Times-Star | 8,393 | paid | daily |
| | Albany Times | 6,900 | paid | daily |
| | Milpitas Post | 4,460 | paid | twice weekly |
| | Montclarian | 8,500 | paid | weekly |
| | Oakland Intercity Express | 730 | paid | daily |
| | Piedmonter | 2,024 | paid | weekly |
| | Portuguese Journal (Oakland) | 3,169 | paid | weekly |
| | Voz de Portugal (Hayward) | 4,000 | paid | 3 times mont |



-continued

TABLE III-A-1
BAY AREA NEWSPAPERS
(concluded)

| | | | |
|---|---|---|---|
| - Unpaid Circulation - 25,000 or less | | | |
| Alameda County Observer | 25,000 | controlled | weekly |
| (Alameda) Times-Star Advertiser | 16,000 | mass | weekly |
| Berkeley Post | 15,000 | controlled | twice week1 |
| Castro Valley Reporter | 1,875 | controlled | weekly |
| Claremont Press Telegram | 16,500 | controlled | weekly |
| East Bay Labor Journal | 23,000 | controlled | twice month |
| (Milpitas) Trading Post | 8,000 | mass | weekly |
| Oakland California Voice | 25,000 | controlled | weekly |
| Oakland Neighborhood Journal | 12,250 | controlled | weekly |
| Oakland-Piedmont Spectator | 16,000 | mass | weekly |
| Oakland Times | 13,000 | controlled | weekly |
| Piedmont-Oakland Bulletin | 11,000 | mass | weekly |
| Pleasanton Times | 8,000 | controlled | 5 times week |
| San Lorenzo Sun-Journal | 2,450 | controlled | weekly |
| Valley Pioneer | 15,000 | controlled | weekly |
| Valley Times | 11,836 | controlled | 5 times week |

Sources: Audit Bureau of Circulations; direct contact with non-ABC publishers; Seiden Study for National Association of Broadcasters, FCC Docket 18110; Ayers.

smaller retail establishments, many kinds of classified advertisers, and other more localized advertisers. Similarly, in terms of competing for audience attention, their larger circulation makes profitable a higher level of editorial quality (better features, reporters, and editors) which gives them an advantage in attracting audiences with less localized interests. For audiences with more localized interests, however, the first layer papers suffer by comparison with lower layer papers, for they simply cannot carry the volume of local interest stories per community that their smaller competitors can.

As one moves away from first layer papers to papers located in successively smaller cities, one finds smaller newspaper operations with lower levels of circulation, higher per unit costs, smaller circulation zones, and higher audience penetration within the zones. The advertising market comparative advantage shifts away from national and regional advertisers and towards advertisers interested in more localized audiences. The comparative advantage in competing for audience attention shifts away from audiences interested in a "quality" paper and towards audiences with more localized interests. Eventually, as one moves down through the layers, one gets to weekly publications which maximize audience density by free distribution, which are generally cost effective for only the most localized advertisers, and which, with their neighborhood correspondents, have atrocious "quality" but amazing local audience appeal.

The important competition among newspapers is inter-layer rather than intra-layer. Within a given layer, the circulation zones of the similar sized newspapers in that layer overlap very little if at all. The circulation zone of the Chronicle-Examiner scarcely touches the zones of other first layer papers, the Los Angeles Times and the Portland Oregonian. Moving to lower layers, the circulation zones generally touch and may even overlap a bit as one gets to the smallest cities. But the important point is that the audiences of newspapers within a given layer are almost perfectly disjoint one from another. Since advertisers are interested in audiences, there can be no effective competition in advertising markets among newspapers of a given layer.

Competition between layers is more vigorous. Advertising market competition is at the fringes of advertising markets where adjacent layers of newspapers have relative advantages. As one moves across a spectrum of national-regional advertisers to advertisers interested in more localized audiences, one finds advertisers for whom the advantages of first layer newspapers are marginal or non-existent relative to second layer newspapers, and similarly between successive layers. Small changes in audiences, advertising prices or, more importantly, small changes in circulation density can shift important segments of advertising markets from layer to layer. If one recalls the "quality" local news trade-off, inter-layer competition for audience is also at the fringes of audiences segmented by interests and tastes. Small changes in "quality" or in location specific news can shift audiences from layer to layer where such choices are available to

audiences, and can everywhere shift potential audiences into or out of newspaper readership.

It is interesting to look at Figure III-A-5 in which the first three layers of competition are overlaid on the Bay Area map. From that figure, one can see that the area in which the fewest daily newspaper choices are available to readers is San Francisco, the center of the metropolitan area. In Oakland and San Jose, readers generally have two choices; the metropolitan paper and the satellite city paper. Readers in all of the suburban markets have at least two newspaper choices, the suburban paper and the metropolitan paper, and in most they have at least three choices and sometimes four. There are advantages to living away from the location of publication of a large metropolitan paper.

Thus competition among newspapers is focused in inter-layer rather than intra-layer competition. Newspapers of each layer compete with higher layer newspapers for audience attention (and, therefore, advertiser dollars) throughout their circulation zone, and with lower layer papers in the parts of their circulation zones away from their immediately proximate communities. The layer in which a newspaper finds itself depends on the size and importance of its local community relative to the local communities of surrounding newspapers.

This completes discussion of the "layer" or "umbrella" model of newspaper competition. However, several other tables and figures will give a fuller view of media competition in the Bay area. Table III-A-2 and its associated Figure III-A-7 show the state of electronic media competition

FIGURE III-A-5
BAY AREA NEWSPAPERS,
METROPOLITAN, SATELLITE CITY, AND
SUBURBAN NEWSPAPER CIRCULATION ZONES OVERLAID

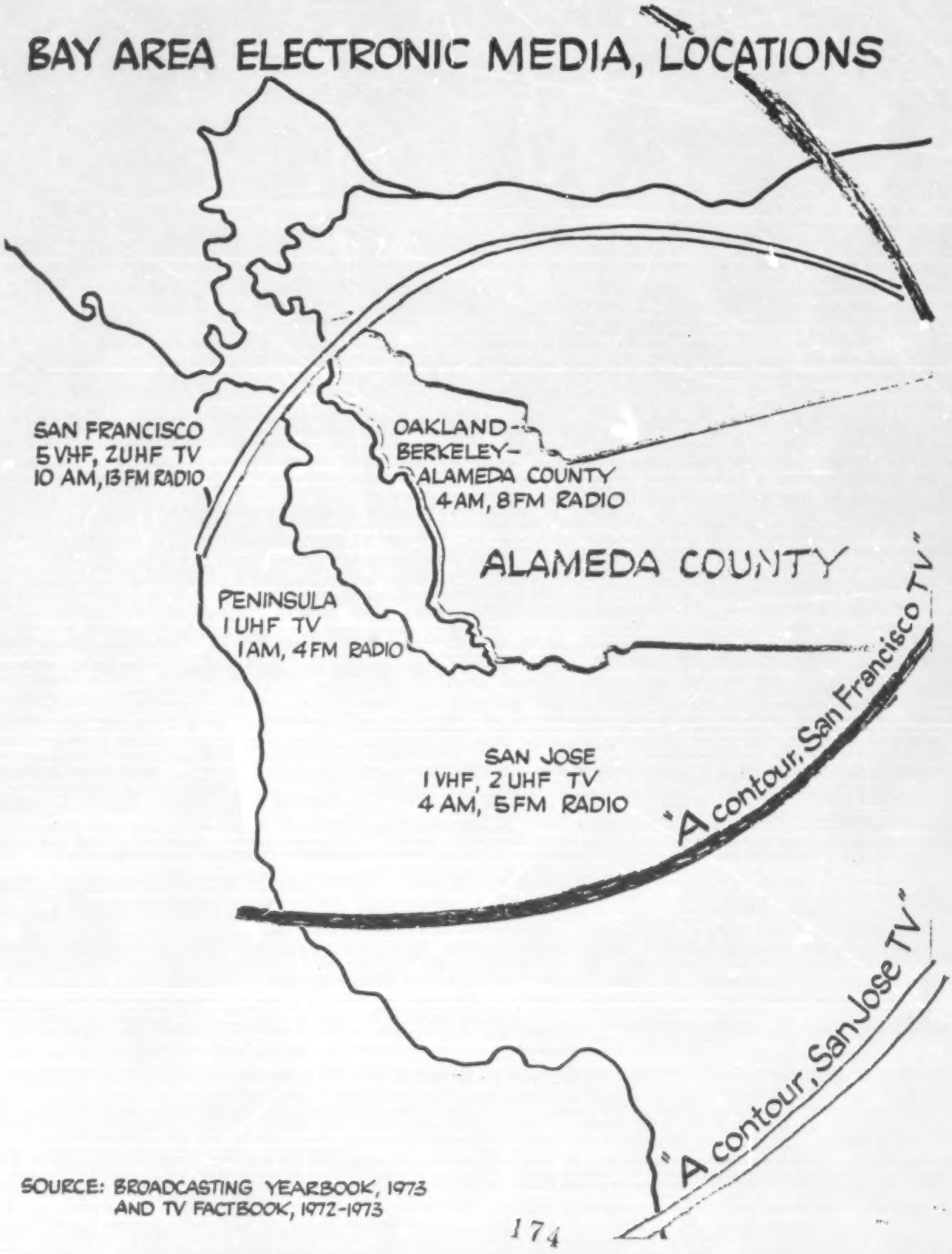
Table III-A-2

# BAY AREA
# ELECTRONIC MEDIA, TOTALS

| | | COMMERCIAL | NON-COMMERCIAL | TOTAL |
|---|---|---|---|---|
| TV - | VHF | 5 | 1 | 6 |
| | UHF | 3 | 2 | 5 |
| RADIO - | AM | 19 | - | 19 |
| | FM | 22 | 8 | 30 |
| TOTAL | | 49 | 11 | 60 |

SOURCE: BROADCASTING YEARBOOK, 1975

FIGURE III-A-7




SOURCE: BROADCASTING YEARBOOK, 1973
AND TV FACTBOOK, 1972-1973

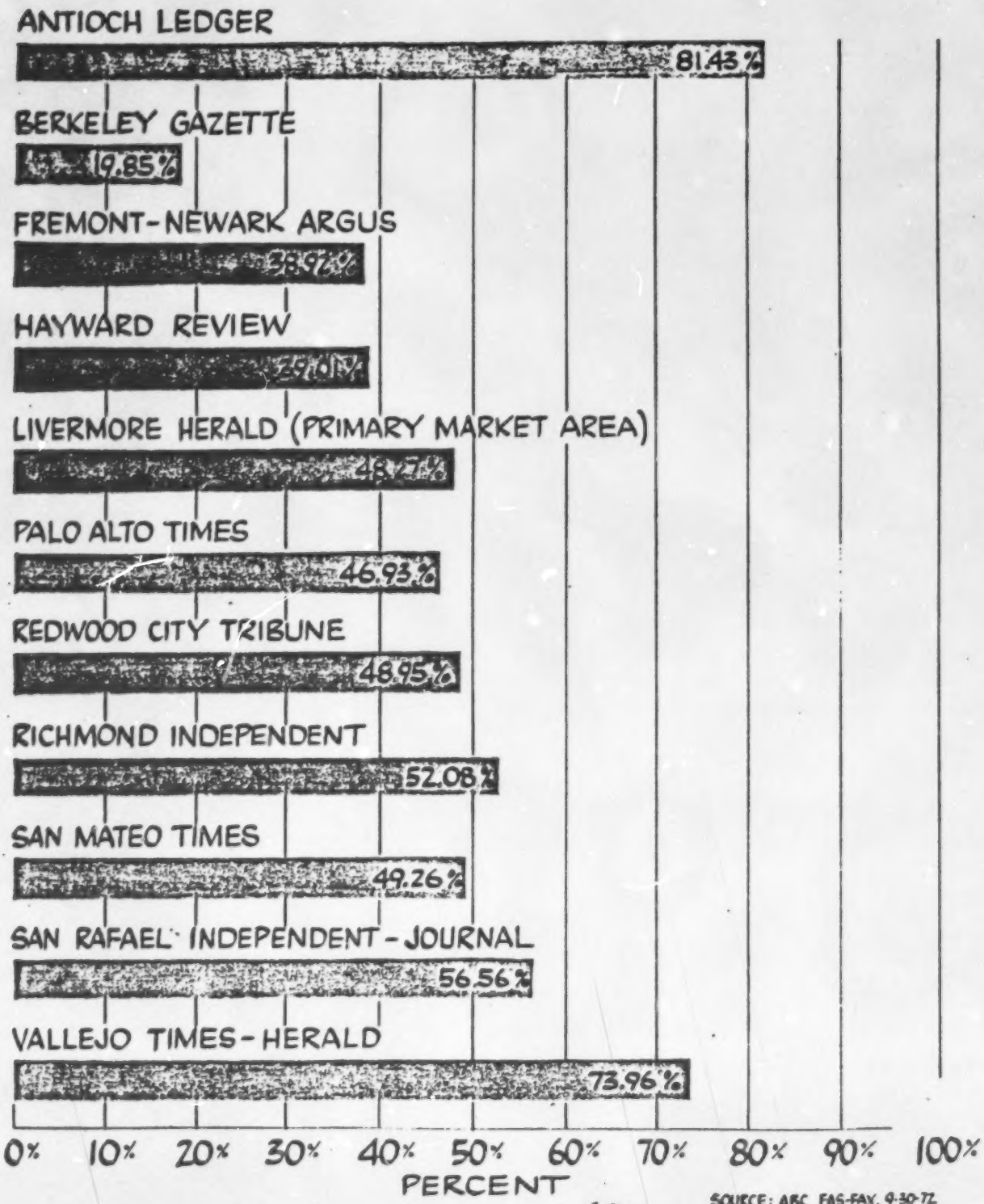
in 1973. The eleven active TV franchises in 1973 had grown to sixteen by 1978. The figure shows that electronic media can be "layered" in much the same way as print media.

Figures III-A-8,9 show penetration figures for California newspapers. There is some suggestion in the first of these charts, which treats suburban papers, that suburban papers located nearest the larger metropolitan papers have lower penetration in their city zones than do others. The second of these charts is notable in its showing that penetrations for newspapers located in non-metropolitan areas are much higher than those of newspapers located in metropolitan centers. This is, of course, a function of the fact that fewer choices are generally available in the non-metropolitan areas.

Finally, Figure III-A-10 presents what might be thought of as a profile of intermedia competition in the Hayward city zone in 1971-72. From various sources, as referenced in the Figure, estimates of the penetration of different media were assembled. All those with penetration figures exceeding 10% are displayed. If all media with penetration greater than 1% in the area had been included, the total "penetration" would have exceeded 600%.

FIGURE III-A-8

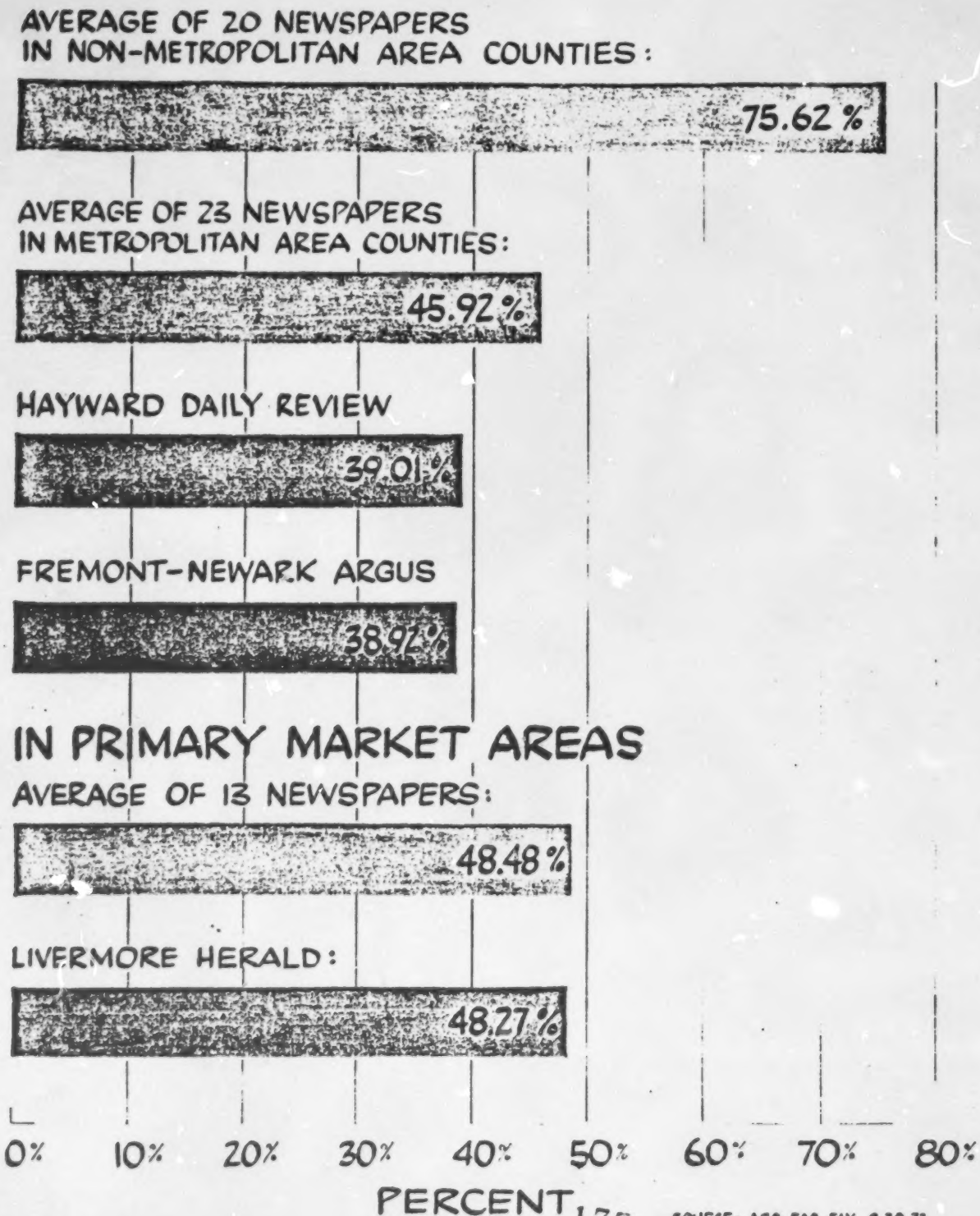
# PENETRATION RATES, suburban ABC dailies in San Francisco Bay Area




SOURCE: ABC FAS-FAX, 9-30-72

FIGURE III-A-9

# PENETRATION RATES, all California ABC dailies, 7500-100,000 circulation, in cities with no other ABC daily.

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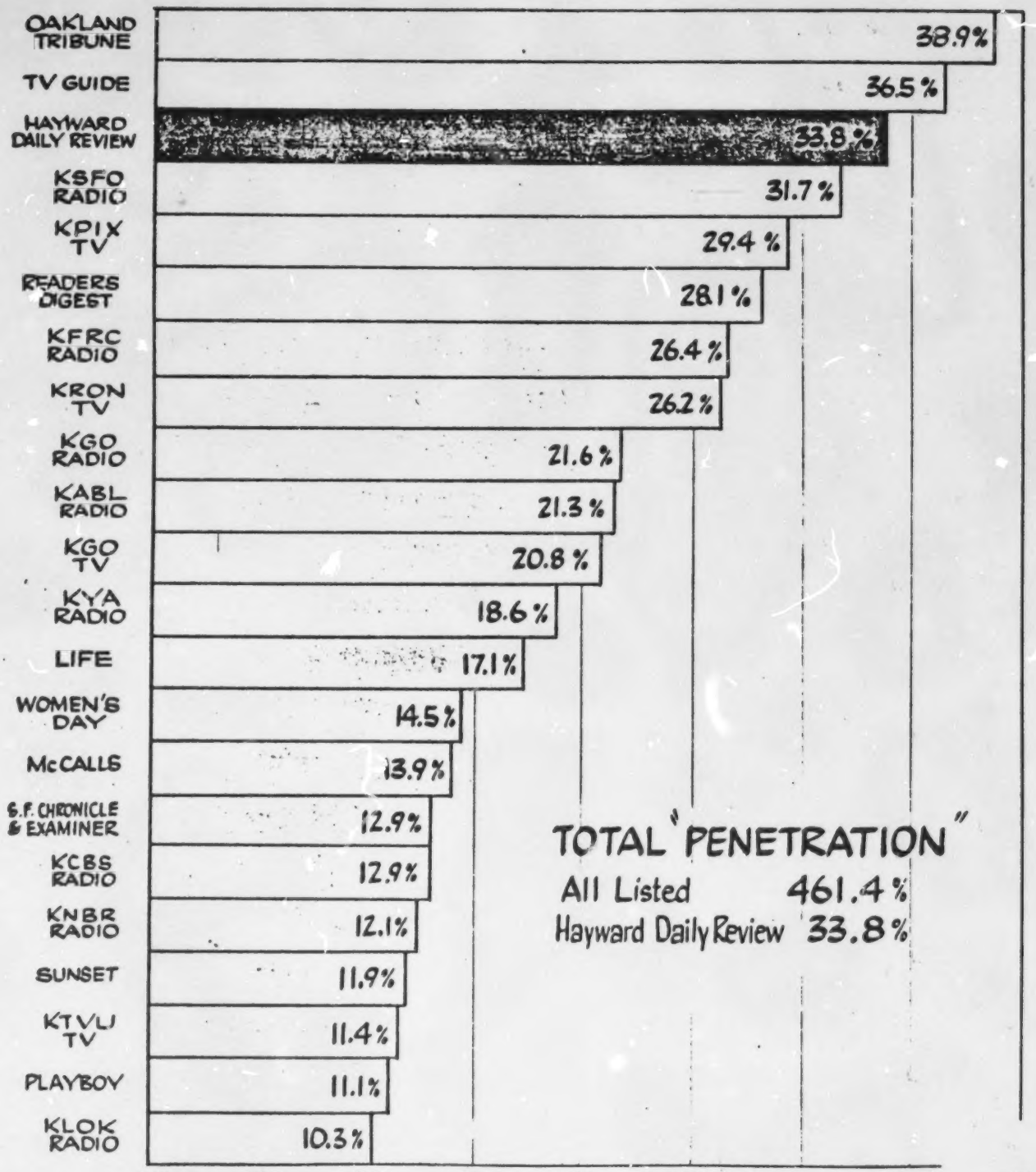
SOURCE: ABC FAS-FAX, 9-30-72

FIGURE III-A-10

# COMPARISON OF AUDITED MEDIA PENETRATION RATES IN HAYWARD CITY ZONE 1971-72




(SOURCES OVER)
- CONTINUED

FIGURE III-A-10
(concluded)

Sources: For newspapers: 1972 ABC audit reports with circulations for Hayward City zone modified to follow city limits. For magazines, radio, and television: National Association of Broadcasters study by Seiden, 1971. This study used results of surveys by ARB for television, pulse for radio, and ABC for magazines. All with penetrations of over 10% are included.

NOTE: The magazine, radio, and television statistics are average penetrations in the San Francisco-Oakland "Area of Dominant Influence" which consists of Alameda, Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties in California.

B. The New York Media Market

New York is particularly interesting due to its status as the nation's largest media market. Its sheer size and diverse population is not entirely representative of other markets, but the media competitive structure has the same general character found in other localities on a smaller scale. By focusing on the N.Y. market, it is also possible to discern trends obscured by the broader aggregations of data reported in Section II.

Newspapers

The Audit Bureau of Circulations has defined the city zone of the New York newspaper market as consisting of the five boroughs of New York City (Bronx, Kings, Queens, Richmond and N.Y.) plus contiguous towns in New Jersey (located in Hudson County). Today, only three newspapers have significant circulations extending into all areas of the city zone, the Post, News, and Times. Several other papers have managed to carve out submarkets. The Retail Trade Zone consists of "suburban" counties falling within a 50-mile radius of New York. A significant percentage of the center-city papers' circulation extends into these areas where numerous smaller-town newspapers are located.

Table III-B-1 illustrates the structure of the market by outlining the distribution of circulation for six major New York Area newspapers. The three center-city newspapers dominate city-zone circulation. The Post, News, and Times sold nearly 2 million newspapers in the city zone in 1978, or about 80% of the total circulation in that area.

The data indicate that market segmentation has taken place within the N.Y. market. The Daily News, selling 58% of its circulation within

TABLE III-B-1
CIRCULATION DISTRIBUTION
6 MAJOR NEW YORK AREA NEWSPAPERS
1978

| | N.Y. News | | | N. Y. Times | | | N. Y. Post | | |
|---|---|---|---|---|---|---|---|---|---|
| | #[1] | % | Reach[2] | # | % | Reach | # | % | Reach |
| Total | 1923.4 | 100 | - | 843.3 | 100 | - | 561.8 | 100 | - |
| City Zone | 1120.7 | 58 | 34 | 324.7 | 39 | 10 | 491.4 | 88 | 15 |
| Bronx | 183.6 | 10 | 37 | 24.4 | 3 | 5 | 35.5 | 6 | 7 |
| Kings | 319.4 | 17 | 36 | 52.1 | 6 | 6 | 64.0 | 11 | 7 |
| N. Y. | 242.1 | 13 | 35 | 170.9 | 20 | 25 | 336.0 | 60 | 48 |
| Queens | 285.4 | 15 | 37 | 63.9 | 8 | 8 | 49.1 | 9 | 6 |
| Richmond | 47.1 | 2 | 43 | 7.2 | 1 | 7 | 2.3 | 0 | 2 |
| Hudson | 51.5 | 3 | 24 | 7.6 | 1 | 4 | 0 | 0 | 0 |
| Other | 802.7 | 42 | - | 518.6 | 61 | - | 70.4 | 12 | - |
| Nassau | 125.4 | 7 | 29 | 61.2 | 7 | 14 | 13.9 | 2 | 3 |
| Suffolk | 91.9 | 5 | 24 | 24.3 | 3 | 6 | 2.5 | 0 | 1 |
| Westchester | 70.2 | 4 | 24 | 54.4 | 6 | 19 | 15.1 | 3 | 5 |

| | Long Island Newsday | | | Staten Island Advance | | | Jersey City Journal | | |
|---|---|---|---|---|---|---|---|---|---|
| | # | % | Reach | # | % | Reach | # | % | Reach |
| Total | 472.5 | 100 | - | 71.8 | 100 | - | 72.8 | 100 | - |
| City Zone | 17.0 | 4 | 1 | 71.1 | 99 | 2 | 68.0 | 93 | 2 |
| Bronx | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kings | .4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| N. Y. | 2.3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Queens | 14.3 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Richmond | 0 | 0 | 0 | 70.9 | 99 | 65 | 0 | 0 | 0 |
| Hudson | 0 | 0 | 0 | 0 | 0 | 0 | 68.0 | 93 | 32 |
| Other | 455.5 | 96 | - | .7 | 1 | 0 | 4.8 | 7 | 0 |
| Nassau | 239.2 | 51 | 55 | 0 | 0 | 0 | 0 | 0 | 0 |
| Suffolk | 216.0 | 46 | 57 | 0 | 0 | 0 | 0 | 0 | 0 |
| Westchester | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

[1]Circulation in thousands.

[2]% Households Reached.

Source: Circulation 78/79, American Newspaper Markets Inc.

the city zone, achieves a penetration rate of about 35% in all of the boroughs. On the other hand, the N.Y. Post has a Manhattan identity. Fully 88% of its circulation is sold within the N.Y. city zone and 60% sold within N.Y. county (Manhattan). The Post manages a 48% penetration or reach in this area where it dominates other newspapers. Finally, the Times is more national in scope. Only 10% of the city-zone households are exposed to the Times on a daily basis. Times penetration is highest in New York County, 25%, but over 60% of its circulation is sold outside the city zone.

The Staten Island Advance is located in the city-zone county of Richmond. The Advance dominates even the News in this area (by a ratio of 1.4 to 1). Fully 65% of Richmond households receive the Advance. However, the firm's circulation is almost entirely limited to Richmond.

Similarly, the Jersey City Journal, located in Hudson County, N.J., has segmented a smaller market within the city-zone. Of its nearly 73 thousand daily circulation, 93% are sold in Hudson. Of the three major center-city firms, only the News competes effectively in this area.

Located on Long Island in the N.Y. retail trade zone, Newsday has a clear advantage in serving readers in Nassau and Suffolk counties where market penetration rates are over 55%. Both the N.Y. Times and News have had some success in reaching these communities, but Newsday dominates.

Historical data on newspaper firms in the New York Market reveal some rather interesting patterns. In Table III-B-2, the years before 1930 exhibit a rapid growth in both firms and daily circulation. After 1930, circulations continued to rise despite a decline in the

TABLE III-B-2

New York Daily Newspapers and Total Circulation
by Publication Location, 1881-1975
(000)

| | City Zone | | Retail Trade Zone | | City and Retail Trade Zone | | Foreign Language | | Total Dailies | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Firms | Daily Circulation | Firms | Daily Circulation | Firms | Daily Circulation | Firms | Daily Circulation | Firms | Daily Circulation | % Dailies Sold By City Zone Firms (English) |
| 1881 | 19 | 557.5 | 12 | 24.7 | 31 | 582.2 | 9 | 175.8 | 40 | 758.0 | 96% |
| 1897 | 19 | 1555.9 | 25 | 112.8 | 44 | 1668.7 | 15 | 266.5 | 59 | 1935.2 | 93 |
| 1915 | 24 | 3632.5 | 35 | 268.8 | 59 | 3901.3 | 30 | 1046.9 | 89 | 4948.2 | 93 |
| 1920 | 26 | 3633.2 | 36 | 386.5 | 62 | 4019.7 | 36 | 944.2 | 98 | 4963.9 | 90 |
| 1925 | 26 | 4455.7 | 34 | 499.0 | 60 | 4954.7 | 30 | 1006.6 | 90 | 5961.3 | 90 |
| 1930 | 26 | 5299.7 | 37 | 656.0 | 63 | 5955.7 | 33 | 698.4 | 96 | 6654.1 | 88 |
| 1935 | 22 | 5190.1 | 31 | 568.0 | 53 | 5758.1 | 23 | 680.3 | 76 | 6438.4 | 90 |
| 1940 | 20 | 5556.0 | 30 | 650.1 | 50 | 6206.1 | 25 | 676.6 | 75 | 6882.7 | 90 |
| 1945 | 20 | 5595.3 | 30 | 758.2 | 50 | 6353.5 | 20 | 554.3 | 70 | 6907.8 | 88 |
| 1950 | 21 | 6642.4 | 29 | 1048.3 | 50 | 7690.7 | 29 | 610.5 | 79 | 8301.2 | 86 |
| 1955 | 17 | 6084.5 | 28 | 1261.9 | 45 | 7346.4 | 21 | 432.9 | 66 | 7779.3 | 83 |
| 1960 | 17 | 5911.4 | 28 | 1506.3 | 45 | 7417.7 | 19 | 447.2 | 64 | 7864.9 | 80 |
| 1965 | 16 | 5173.6 | 29 | 1776.7 | 45 | 6950.3 | 16 | 364.6 | 61 | 7314.9 | 74 |
| 1970 | 12 | 4503.3 | 29 | 1914.3 | 41 | 6417.6 | 14 | 390.2 | 55 | 6807.8 | 70 |
| 1975 | 10 | 4084.8 | 27 | 1831.4 | 37 | 5916.2 | 10 | 293.8 | 47 | 6194.4 | 69 |

Source: Ayer, N.W. & Son American Newspaper Annual, Philadelphia: Ayer 1880-

number of firms located in the city zone and retail trade zone. In addition, the period since 1950 shows a decline in total circulation for firms located in the city zone. This drop of over 2-1/2 million newspapers reflects the changes occurring throughout the industry.

Patterns of growth have been more stable for firms located outside of the city in the retail trade zone. The number of newspaper firms has fallen slightly in the 1970's and circulations have risen rather steadily (the 1975 decline is probably due to that year's recession). Thus, the distribution of circulation within the New York market has shifted in favor of suburban newspapers. In 1881, city-zone firms published 96% of the papers produced in the total market area; by 1950, this percentage had fallen to 86%; today, under 70% of the area's circulation is sold by firms located in the city-zone.

Although most analyses of the daily newspaper industry are confined to English-language publications, Table III-B-2 illustrates the importance of the foreign press in New York. Circulation for this class of newspapers peaked at over one million in the twenties and thirties and has since declined to just over a quarter of a million. The identity of newspaper firms and their respective languages have fluctuated over the years, with waves successive of immigration. Of course, large populations literate in foreign languages provide ideal opportunities for market segmentation.

Data on circulation of Sunday editions illustrate similar though more dramatic historical patterns in Table III-B-3. In early years, Sunday circulation was the exclusive domain of seven or eight city-zone publications. By 1950, city-zone newspapers sold almost ten

TABLE III-B-3
New York Sunday Newspapers and Circulation
by Publication Location, 1881-1975
(000)

| | City Zone | | Retail Trade Zone | | Total | | |
|---|---|---|---|---|---|---|---|
| | Firms | Sunday Circulation | Firms | Sunday Circulation | Firms | Sunday Circulation | % City Zone |
| 1881 | 9 | 448.2 | 0 | 0 | 9 | 448.2 | 100.0% |
| 1897 | 7 | 998.4 | 0 | 0 | 7 | 998.4 | 100.0 |
| 1915 | 10 | 2270.6 | 1 | 6.2 | 11 | 2276.8 | 99.7 |
| 1920 | 9 | 2623.0 | 2 | 14.0 | 11 | 2637.0 | 99.5 |
| 1925 | 8 | 3932.1 | 4 | 57.3 | 12 | 3989.4 | 98.6 |
| 1930 | 8 | 4609.8 | 3 | 71.9 | 11 | 4681.7 | 98.5 |
| 1935 | 8 | 5830.4 | 4 | 71.3 | 12 | 5901.7 | 98.7 |
| 1940 | 7 | 7659.0 | 4 | 87.8 | 11 | 7746.8 | 98.9 |
| 1945 | 8 | 8259.6 | 4 | 155.2 | 12 | 8414.8 | 98.2 |
| 1950 | 8 | 9935.0 | 4 | 455.0 | 12 | 10390.0 | 95.6 |
| 1955 | 8 | 8734.4 | 4 | 639.7 | 12 | 9374.1 | 93.2 |
| 1960 | 7 | 7780.2 | 4 | 805.4 | 11 | 8585.6 | 90.6 |
| 1965 | 5 | 6017.3 | 4 | 910.1 | 9 | 6927.4 | 86.9 |
| 1970 | 5 | 5187.3 | 5 | 1103.1 | 9 | 6290.4 | 82.5 |
| 1975 | 4 | 4594.00 | 6 | 1318.7 | 10 | 5912.7 | 77.7 |

Source: Ayer, N.W. & Son American Newspaper Annual, Philadelphia: Ayer, 1880-

million Sunday editions, over 95% of the Sunday papers sold each week. Since then, circulations have dropped 50% for these newspapers while their suburban competitors have seen circulations rise almost 300%. Today, nearly one quarter of all Sunday papers sold in the N.Y. area are sold by firms located in the retail trade zone.

Despite the increases in the number of newspaper competitors located in suburban markets, the center city newspapers have come to rely more on circulation in these areas rather than less. Table III-B-4 illustrates the trend in circulation distribution for the New York City (Manhattan) newspapers where there has been a systematic spread of circulation from the inner city outward. In 1920, Manhattan newspapers sold 79% of their circulation within the city zone. By 1950 this figure dropped slightly to 74%. By 1975 under 60% of circulation was sold within the city zone. In absolute terms, circulation within the city dropped 50 percent, from 4.3 million to 2.1 million daily newspapers. In addition, circulations have begun to extend further beyond the retail trade zone. Circulation in areas outside the ABC market now accounts for 15 percent of total circulation.

This increased dependence of the urban-center firms on suburban circulation may be surprising. Television and radio have comparative advantages in appealing to broad and dispersed audiences. The concommitant demand for a more localized product has contributed to the vigorous growth of suburban dailies. One manifestation of this should be an increased concentration on the part of metropolitan dailies on their area of natural advantage--the city zone. Instead, more intense competition now takes place for suburban readers. Thus, the Manhattan dailies have attempted

TABLE III-B-4
Distribution of Circulation of
New York City (Manhattan) Newspapers
1920-1975

| | Circulation (000) | | | | % of Total | | |
|---|---|---|---|---|---|---|---|
| | City Zone | Trade Zone | City and Trade Zone | Total | City Zone | Trade Zone | City and Trade Zone |
| 1920 | 2637.9 | 397.5 | 3035.4 | 3331.8 | 79 | 12 | 91 |
| 1925 | 2877.6 | 515.5 | 3393.1 | 3720.2 | 77 | 14 | 91 |
| 1935 | 3510.4 | 707.1 | 4217.5 | 4629.2 | 76 | 15 | 91 |
| 1940 | 3854.0 | 767.9 | 4621.9 | 5068.2 | 76 | 15 | 91 |
| 1945 | 3660.5 | 820.7 | 4481.2 | 5059.2 | 72 | 16 | 89 |
| 1950 | 4323.9 | 984.3 | 5308.2 | 5891.6 | 74 | 17 | 90 |
| 1955 | 3755.1 | 1028.4 | 4783.5 | 5471.3 | 69 | 19 | 87 |
| 1960 | 3365.1 | 1101.9 | 4467.0 | 5167.6 | 65 | 21 | 86 |
| 1965 | 2872.1 | 992.7 | 3864.8 | 4433.1 | 65 | 22 | 87 |
| 1970 | 2241.2 | 905.1 | 3146.3 | 3712.0 | 60 | 24 | 85 |
| 1975 | 2122.8 | 930.9 | 3053.7 | 3572.1 | 59 | 26 | 85 |

Source: Standard Rate and Data Service, Newspaper Circulation Analysis, (Skokie, 1920-75 ).

to provide more coverage of news of interest to neighborhoods by re-plating pages and publishing regional sections.

Naturally, the decline in city-zone circulation of Manhattan newspapers is primarily due to the fact that, since 1950, ten firms have gone out of business. However, an examination of the circulation of firms that have been continuously, publishing over the period in question illustrates a point. Despite the decline in number of competitors, the remaining newspapers have failed to maintain city-zone circulation levels. Circulation totals (in thousands) for the current surviving Manhattan papers were as follows:

| YEAR | CITY ZONE | TOTAL |
|---|---|---|
| 1950 | 2260 | 3164 |
| 1975 | 2122 | 3572 |
| % Change | -6% | +13% |

A partial explanation of the increase reliance on suburban circulation is found in the recent demographic history of the New York Market. Table III-B-5 indicates salient patterns. In 1950, 60% of the New York newspapers market's population lived in the city zone. By 1975, only 45% of the population lived there. Trends in the income levels of the respective markets and in retail sales per household indicate that the suburban population became more wealthy relative to those remaining in the city. Even more importantly, more retail dollars are spent in suburban outlets. Thus, as a matter of survival, the central city newspapers have been forced to rely increasingly on suburban markets, areas in which the more localized suburban firms have a natural advantage in market segmentation.

TABLE III-B-5
DEMOGRAPHICS OF THE NEW YORK MARKET,
1950 - 1975

| POPULATION[a] | 1950 | 1960 | 1970 | 1975 |
|---|---|---|---|---|
| City Zone | 8.7 | 8.4 | 8.5 | 8.2 |
| Retail Zone | 5.7 | 7.7 | 9.7 | 9.9 |
| Total | 14.4 | 16.1 | 18.2 | 18.1 |
| PER-HOUSEHOLD EFFECTIVE BUYING INCOME[b] | | | | |
| City Zone | 5,979 | 7,569 | 11,191 | 13,356 |
| Retail Zone | 6,854 | 8,251 | 14,651 | 18,594 |
| PER-HOUSEHOLD RETAIL TRADE[b] | | | | |
| City Zone | 3,787 | 4,188 | 4,563 | 5,752 |
| Retail Zone | 3,927 | 4,697 | 6,776 | 8,836 |
| RATIOS CITY-ZONE/RETAIL ZONE | | | | |
| Population | 1.53 | 1.09 | .88 | .83 |
| Effective Buying Income | 1.21 | 1.18 | 1.06 | .97 |
| Retail Trade Zone | .96 | .89 | .67 | .65 |

a) millions

b) nominal $

Source: Sales Management

Weekly Newspapers

With the advent of a broader-based, electronic medium as well as increased importance of autonomous suburban markets, the character of New York daily newspaper industry changed. The dominance of the big-city dailies has steadily dwindled. At the same time weekly newspapers grew. These publications are markedly local in character with their emphasis on local community news, politics, and advertising.

Table III-B-6 develops the pattern from 1961 to 1977. In 1967, there were 31 weekly newspapers located in the N.Y. city zone with weekly circulation of 358.5 thousand. By 1977, there were 46 firms circulating 926.3 thousand newspapers weekly, an increase of 158 percent. Of those 46 firms, 24 entered the market for the first time during the period. However, the growth is not merely due to the entries. The 22 firms which published continuously throughout the period experienced a growth in weekly circulation from 264 to 433.4 thousand, a 64 percent increase. Penetration of households within the city zone has now reached 29 percent.

Readers living in satellite and suburban communities have also begun to rely more on papers with local emphasis. There are now 261 weekly newspaper firms located in retail trade zone areas. These weeklies distribute over two million papers and reach 65 percent of the households. Circulations have risen over 100 percent since 1961.

Thus, the metropolitan press, subjected to shifting demography and increased competition from the electronic media over the last three decades has faced an additional challenge. Community newspapers, with distinct advantages in supplying local news and advertising, have prospered and grown. Indeed, although the structure of the newspaper

TABLE III-B-6
NEW YORK
WEEKLY NEWSPAPERS
1961, 1977

| | 1961 | | | 1978 | | |
|---|---|---|---|---|---|---|
| Market Area | Firms | Circulation* (000) | Penetration | Firms | Circulation (000) | Penetration |
| City Zone | 31 | 358.5 | 14% | 46 | 926.3 | 29% |
| Retail Zone | 218 | 990.1 | 43% | 261 | 2,094.1 | 65% |
| Total ADI** | 264 | 1,390.3 | | 325 | 3,097.6 | |

* Includes some free distribution

** Area of dominant influence

Sources: Editor and Publisher International Yearbook, 1962 and 1978.

Ayer, N. W. & Son, American Newspaper Annual, Philiadelphia: Ayer 1962, 1977.

industry has changed in this largest of U.S. markets, the most effective newspaper product differentiation continues to be on the basis of local community and geography.

Electronic Media

The New York media market has a wide variety of electronic voices. These media have a wider reach than the retail trade zone defined for newspapers. The Area of Dominant Influence (ADI) defined for electronic media includes Dutchess, Sullivan, and Ulster counties in New York and Pike county in Pennsylvania. These areas constitute only 2% of the total ADI population. For most purposes, therefore, the ADI and retail trade zone can be viewed as being roughly equivalent,

In 1977, 43 commercial radio stations broadcast in the New York ADI. During a typical quarter hour of broadcast time these stations reached an average of over 50,000 listeners each. The average quarter-hour audience ranged up to 212 thousand persons for WABC. During a typical broadcast week an average station reached over 900 thousand different listeners, or about 7% of the total ADI population of persons over 12 years old. WABC radio reached over four million different listeners per week. Table III-B-7 provides data for the larger audience New York radio stations. The largest audience is less than 10 percent of the total average quarter-hour market. The typical person older than twelve tunes in to over two and one-half stations in an average week.

To an important degree, these radio stations offer differentiated programming designed to appeal to a variety of market segments. Thirty-seven of the stations provide descriptions of their format.* Four of the

*Broadcasting Yearbook, 1978 Broadcasting Publications, Inc.

TABLE III-B-7
RADIO AUDIENCES,
N.Y. ADI, 1978

| Station | Average Quarter Hour[1)] | Share[2)] | Weekly Penetration[3)] |
|---|---|---|---|
| WABC | 212.4 | .9% | .28 |
| WBLS | 189.6 | 8 | .12 |
| WOR | 181.2 | 8 | .16 |
| WCBS,AM | 143.1 | 6 | .18 |
| WINS | 131.6 | 6 | .18 |
| WRFM | 127.4 | 5 | . 9 |
| WPLJ | 101.7 | 4 | .12 |
| WXLO | 84.8 | 4 | . 8 |
| WNBC | 84.3 | 4 | .14 |
| WMCA | 80.9 | 3 | . 8 |
| Total for 10 Largest Stations | 1,337.0 | 57% | 1.43 |
| Remaining 33 Stations | 1,003.4 | 43% | 1.11 |
| Total N.Y. Market | 2,340.4 | 100% | 2.54 |

1) Number of viewers in thousands, 12 years old +, average quarter hour.

2) Average quarter hour viewers/sum of viewers for all stations.

3) Ratio of cumulative different viewers, Monday-Sunday, 6 a.m.-midnight to total ADI population, 15.3 million.

Source: Arbitron Radio: New York, The Arbitron Company April/May 1978.

emphasize mass appeal or popular "top-ten" rock. Two others describe their programming as "mellow" or soft rock. Three stations are primarily news sources, while the same number play classical music. One station has a "country" orientation, three have talk-show formats, and three play progressive music and jazz. A new station produces content of a "variety show" nature, a throw back to the early days of radio. Three stations are community oriented, with emphasis being local issues and politics. Seven radio stations present diversified programming and, finally, several attempt to isolate population groups by offering ethnic and cultural broadcasts. For example, there is Cajun, Italian, French, Czeck, Greek, German, Polish, Hindu, West Indian and Ukranian programming. Also a few stations are exclusively Spanish or Black oriented.

The New York ADI also has eleven television stations, six of which reach considerable audiences. Table III-B-8 provides summary data. During the average quarter-hour of prime time (8-11 pm) nearly 70 percent of the households are tuned to a station. The three network owned-and-operated stations share over 70 percent of the tuned in audience. In other time periods, the time slot during which local news is shown, for example, independent stations compete more effectively. This is illustrated in the net weekly circulation figures. The three major unaffiliated stations all have weekly penetrations of over 60 percent of the total ADI audience. On average, households in the New York area watch over 5 stations per week.

TABLE III-B-8
PRIME TIME AND NET WEEKLY
CIRCULATIONS, N.Y. TELEVISION, 1978

| Station | Prime-Time Audience[1] | Share of Audience[2] | Penetration[3] | Net Weekly Circulation | Share of Audience | Penetration |
|---|---|---|---|---|---|---|
| WABC | 1,211 | 27% | .19 | 5,785 | 17% | .89 |
| WNBC | 1,002 | 23 | .15 | 6,144 | 19 | .94 |
| WCBS | 960 | 22 | .15 | 6,278 | 19 | .97 |
| WNEW | 376 | 8 | .06 | 5,880 | 18 | .90 |
| WOR | 376 | 8 | .06 | 4,095 | 12 | .63 |
| WPIX | 334 | 8 | .05 | 4,437 | 13 | .66 |
| Five Other Stations | 167 | 4 | .02 | 460 | 2 | .07 |
| Total | 4,426 | 100% | .69 | 33,070 | 100% | 5.08 |

1) Average quarter-hour prime-time (8-11) households (in thousands).

2) Percent of total prime-time audience.

3) Ratio of household audience to total ADI households.

Source: Arbitron Television: New York
The Arbitron Company, May 1978

Television Factbook, 1978 Stations
Volume, Television Digest, Inc.

Magazines

National magazines enjoy a considerable circulation within the New York ADI. Table III-B-9 presents circulations and penetrations for some of the major publications. TV Guide circulates to 35 percent of metropolitan New York City households and to 40 percent of suburban households. A typical ADI household receives one and one-half different magazines per month. The ten largest women's magazines have total circulations of almost four million within the ADI, that is, a cumulative penetration of 61 percent. The major news magazines, Time, Newsweek, and U.S. News, have combined circulations amounting to 14 percent of the ADI household population.

National magazines circulate more densely in suburban areas. The ratio of circulation to households in the ADI net of New York City is 1.89 while the figure is 1.13 in the five boroughs of the city. This is partially due to the differing demographics of the respective areas. However, magazines help fill the product gap often left by a small-town newspaper (as compared to a metropolitan daily). For example a city dweller purchasing the New York Times with its Week in Review and New York Times Magazine section may be receiving about the same mix of product attributes as found in a combination of Newsweek and Long Island's Newsday.

Pure Advertising Media

In addition to the media outlined in the preceding paragraphs, there exist a plethora of vehicles through which advertisers can reach

TABLE III-B-9

CIRCULATION OF MAJOR MAGAZINES NEW YORK CITY AND ADI*

| Magazine | (1) N.Y. CITY Circulation (000) | Penetration | (2) ADI Circulation (000) | Penetration | (2-1) Suburban Circulation (000) | Penetratio |
|---|---|---|---|---|---|---|
| T.V. Guide | 1,021.8 | .35 | 2,443.1 | .38 | 1,421.3 | .40 |
| Reader's Digest | 331.7 | .11 | 1,111.1 | .17 | 779.4 | .22 |
| Time | 180.7 | .06 | 490.7 | .08 | 310.0 | .09 |
| McCall's | 166.5 | .06 | 545.3 | .08 | 378.8 | .11 |
| Playboy | 156.4 | .05 | 444.1 | .07 | 287.7 | .08 |
| Woman's Day | 149.7 | .05 | 656.8 | .10 | 507.1 | .14 |
| Family Circle | 149.2 | .05 | 615.9 | .10 | 466.7 | .13 |
| Ladies Home Journal | 131.9 | .04 | 449.5 | .07 | 317.6 | .09 |
| Cosmopolitan | 120.9 | .04 | 252.2 | .04 | 131.3 | .04 |
| National Geographic | 120.4 | .04 | 547.9 | .08 | 427.5 | .12 |
| Newsweek | 118.1 | .04 | 295.9 | .04 | 177.8 | .05 |
| 13 Other Magazines | 668.8 | .19 | 2,192.1 | .34 | 1,523.3 | .43 |
| Total 24 Major Magazines | 3,316.1 | 1.13 | 10,044.6 | 1.54 | 6,728.5 | 1.89 |

*Most audits were for issue dates in 1977. N.Y. City date was for 5 boroughs of N.Y.

Source: Circulation 78/79
American Newspaper Markets Inc.

prospective consumers. Typical of most markets is the substantial volume of direct-mail advertising. The extreme density of the population makes even street corner leaflets an effective means of exposing individuals to messages. No accurate data exist for these methods but casual observation suggests that they are significant. Finally, the New York area contains vast quantities of outdoor advertising. One is never more captive than in bumper-to-bumper traffic on highways leading into Manhattan. It is possible to identify 19 companies in the New York ADI which specialize in billboard advertising.* For many types of messages, these outlets present a viable alternative for advertisers.

A Profile of the New York Market

The compilation of media voices in the New York area indicates that consumers have access to numerous informational sources. Table III-B-10 shows outlets by media category and sums estimated audience penetrations. One finds a total of 459 media "voices" located in the ADI market area. Although not every consumer has contact with each source, the penetration rates give a reasonable indication of a typical household's exposure at any point in time. Generally defined "media markets" fail to depict the overlapping structure in product and geographic space. The existence of a satellite community newspaper does not provide a center-city resident with additional news source. An individual household located in Manhattan may

*The Buyers Guide to Outdoor Advertising. Outdoor Advertising Association of America, June 1978.

TABLE III-B-10
COMPARISON OF MEDIA AUDIENCES
NEW YORK ADI

| Medium | Number | (000) Audience Exposure | Penetration |
|---|---|---|---|
| Daily Newspapers | 56 | 5,335 | .82 |
| Weekly Newspapers | 325 | 3,098 | .48 |
| Magazines | 24 | 10,045 | 1.54 |
| Radio[1)] | 43 | 2,340 | .36 |
| Television[2)] | 11 | 4,426 | .69 |
| Total | 459 | 25,244 | 3.88 |

1) Average daily-quarter hour listening.

2) Average prime-time viewing.

Source: Circulation 78/79 American Newspaper Market, Inc.
Editor & Publisher International Yearbook, 1978
Arbitron Radio, New York May 1972
Television Fact Book 1978

subscribe to any or all of three daily newspapers, a community weekly, and be exposed to any of the 54 electronic and 24 prominent general interest magazines. However, the numerous other weeklies and small-town dailies carry no information of interest to the city resident. Still, Tables III-B-10 and 11 indicate that typical households in the New York ADI have a wide variety of choices and typically read, view, or listen to several media on a regular basis.

TABLE III-B-11
COMPARISON OF PRINT MEDIA
AUDIENCES MANHATTAN

| Medium | Audience | Penetration |
|---|---|---|
| Daily News | 242.1 | .35 |
| New York Post | 336.0 | .48 |
| New York Times | 170.9 | .25 |
| Other Dailies | 7.8 | .01 |
| Weeklies | 334.0 | .48 |
| T.V. Guide | 293.4 | .42 |
| Cosmopolitan | 79.8 | .12 |
| Playboy | 77.1 | .11 |
| Time | 65.1 | .09 |
| Reader's Digest | 60.0 | .09 |
| Vogue | 47.4 | .07 |
| New Yorker | 38.7 | .06 |
| McCall's | 38.6 | .06 |
| National Geographic | 37.8 | .05 |
| Other Magazines | 305.6 | .44 |
| Total | 2,134.3 | 3.07 |

Source: Circulation 78/79,
American Newspaper Markets, Inc.

IV. Policy Issues

Important themes throughout this paper have been the relevance of the theory of monopolistic competition to the analysis of media markets, the character of competition both within and between media, and the inter-relatedness of advertising and audience markets. It should be obvious by now that this emphasis may lead to a somewhat different agenda of policy questions, and sometimes different positions on common agenda, from the application of neo-classical economic theory and more conventional approaches to anti-trust and regulation.

It is our purpose in this section to surface and comment briefly on a series of policy issues. Some of these are issues we think are important and others are questions that have been identified in one or another policy arena. It is not our intention to provide an exhaustive list. Nor is it our intention to provide definitive analyses of the issues. Rather, we seek to illustrate an approach to policy questions as economists based on what we think are appropriate theoretical tools and empirical information. We are also interested in stimulating discussion of some of these issues. Finally, we suggest several places where additional study will have an especially high pay-off in better policy formation.

One such study area needs to be singled out up front. That is the problem of vertical markets and vertical integration. Economics pays insufficient attention to the workings of exchange between various levels of production and distribution involved in transforming raw products and

ideas into objects that consumers use. And yet in media markets questions of vertical structure turn out to be crucial to policy analyses time and again.

For instance, many of the issues involved in TV networking and in network owned and operated stations are problems of vertical markets. In newspapers, both the problems of syndication and wire service markets and the distribution problems found as a result of the Albrecht decision are vertical markets issues. In book publishing, particularly in mass market paperbacks, the organization of distribution and its impact on the supplying industry seems to be crucial.

If we were permitted to set an agenda for theoretical research, we would put at or near the top the question How do (or can) vertical markets exchanging goods with important public goods components get organized efficiently?

We turn now to brief discussions of several policy issues.

A. One Newspaper Cities

There are few cities left in which exist face-to-face competitive daily newspapers of general circulation. In a companion to this paper ("The Evolution of One Newspaper Cities"), it is argued that this state of affairs has come about primarily because of increased competition from other media, because of changes in the character of advertising markets, and because of suburbanization. If that conclusion is correct, the disappearance of direct newspaper competition may not be as severe a policy problem as is often suggested. Nevertheless, there are ways in which the economic performance of the daily press could be improved.

The remaining directly competitive newspapers need to be kept both healthy and competitive as long as possible. We would favor vigorous use of the provisions of the Newspaper Preservation Act to achieve both objectives while urging that the regulatory burden imposed on newspapers be kept as small as possible. Even with the large chains that now exist, newspaper enterprises are still not big businesses.

1. News and Feature Markets

The markets for news and feature content represent opportunity areas for both public and private policy. As the importance and economic strength of big city newspapers continues to decline, syndication markets must become more successful if the supply of new and important commentators and high quality features is to be maintained. We would like to see a larger, stronger, more vigorously competitive industry supplying a larger volume of syndication and wire services. We do not really understand how

and why these markets work the way they do and do not think anyone else does either. We do not understand why territorial exclusivity is so important, for instance, or what it would take to make more than one major wire service successful. These markets are crucial to the future evolution of newspapers and we would urge that some resources be devoted to understanding how the markets work and how their institutions might be structured to improve economic and social performance. Some recent developments in the economic theory of public goods and their provision may be helpful.

2. Dealers and the Albrecht Decision

Almost any policy that improves the possibility of media market entry is desirable, and policies that erect barriers to entry are generally suboptimal from society's standpoint. Since newspapers are a delivered product, their distribution systems can play an important role in fostering or preventing entry. For instance, consider public policies that permit or encourage independent local distributors willing to distribute any newspaper locally that wants circulation there and for whom sufficient demand exists. Such a policy would reduce barriers to entry and foster newspaper competition since a potential entrant would not need to establish his own distribution system in order to gain circulation.

Unfortunately, such distribution systems are presently not possible precisely because of mis-informed public policy. The Albrecht decision of the Supreme Court finds vertical price fixing by newspapers of subscription rates to be a violation of the Sherman Act. But, from

the standpoint of a newspaper firm, a profit maximizing price for subscriptions must take into account the effect of circulation changes on advertising sales. However, a profit maximizing subscription price will be one so low that subscriber demand is quite inelastic with respect to price. Hence, if a distributor has the independent right to set price, he or she will want to increase subscription prices above those that a newspaper would like to set. This in turn, reduces advertising sales and, since readers value advertising, circulation, and so forth. It is not hard to find realistic circumstances in which subscribers, distributors, advertisers, and the newspaper itself are all worse off because of the distributor's right to set price independently. In any circumstances, subscribers and advertisers (because of higher prices) and publishers (because of lower profits) are always made worse off.

Knutsen vs. Daily Review finds that offering distributors employment so as to provide internal control of subscription price is a reasonable act, at least for newspapers whose legal situation is similar to that of the Daily Review. Other pending cases are likely to develop this case law further, but it seems unlikely that a private action will carry the development far enough. What is needed is to educate the Court as to the importance of independent, arms-length distribution systems, and then to convince the Court that an exception to the Albrecht precedent is needed to permit their existence.

B. Group and Chain Ownership Across Media Markets

Viewed independently, we have seen that there is significant group ownership of both newspapers and television stations. In addition, one finds numerous examples of corporate interests in both industries. In fact, holdings often extend into radio broadcasting, magazine distribution, cable T.V. systems, and the movie industry. As a beginning effort to quantify certain elements of this conglomeration, Table IV-C-1 summarizes some ownership characteristics of broadcast stations and daily newspapers. Of the 718 television stations in the United States, only 29 percent have no discernable affiliation with any other media establishments. As indicated previously, these stations are likely to be located in smaller markets and have a cumulative audience amounting to about 15 percent of the industry total. Only 40 percent of daily newspapers with 27 percent of U.S. circulation are unaffiliated. For radios, 25 percent are owned in combinations greater than two. This grossly understates their strength, however, since the powerful 50,000 watt stations are more typically owned by groups. On average, a conglomerate group owns 7 media establishments. Of course, the distribution is highly skewed with some corporations owning significantly more.

For those concerned about diversity in the "market place" of ideas, the tendency of conglomeration is disturbing. Any reasonable characterization of that market suggests that the various industries cannot be viewed in isolation. Also important from an economic standpoint is the fact that few, if any, important efficiencies of joint ownership or production exist. Incentives for conglomeration within the media are similar to those found generally. Growth and risk spreading are of paramount importance to corporate enterprises. Again, tax

Table IV-C-1

GROUP OWNERSHIP OF
RADIO AND T.V. STATIONS,
AND DAILY NEWSPAPERS, 1977

NUMBER OF LOCAL
ESTABLISHMENTS

| | TOTAL | NEWSPAPERS | RADIOS | T.V. STATIONS |
|---|---|---|---|---|
| Total Number of local establishments | 10,280 | 1,580 | 7,982 | 718 |
| Number of establishments owned by Conglomerates* | 3,363 | 948 | 1,971 | 509 |
| Number of Independent Establishments | 6,917 | 632 | 6,011 | 209 |
| % Independent | 67% | 40% | 75% | 29% |
| Share of Audience of Independent Establishments** | | 27% | | 15% |

Sources: Broadcasting Yearbook, 1978
Television Factbook, 1978
Editor and Publisher International Yearbook, 1978

* For this summary, a group is defined as owning at least one of the following media combinations: 3 or more radio stations, 2 or more daily newspapers, 2 or more television stations, any ownership of both a daily newspaper and one broadcast station. There were 439 in all.

** For example, newspapers affiliated with no other media establishment sold 27% of daily circulation in the U.S.

benefits and the role of capital markets may be pivotal here. However, the importance of those industries to the functioning of a democratic society as well as the absence of any strong economic justification for the continued growth of conglomerates suggests a need for investigation of the relevant issues.

C. Cross-media Ownership in a Given Market

Any potentially deleterious ramifications of group or conglomerate ownership should be minimized with adequate safeguards imposed by competitive submarkets. Thus, the local environment is of primary importance. The question is, how much diversity is available in any individual market?

The answer may vary depending on which product attribute one wishes to focus. However, the conclusions with respect to news dissemination, advertising information, or pure entertainment are similar, namely that numerous options, each somewhat differentiated, do exist.

Indeed, the concept of "reasonable interchangeability" played a large role in guiding the FCC in banning new joint ownerships of television stations and newspapers located in the same town. Today, 53 newspapers are affiliated with T.V. stations located in the same city.

Thus, the cross-ownership of television stations and newspapers remains an important issue. Forced divestiture of station holdings involves very sensitive equity considerations, especially since, until 1970, the FCC condoned such combinations and even encouraged them on the grounds that broadcast industries would be further developed as a result, especially in small markets. These considerations should be weighed against the efficiency gains implied by a more competitive environment.

As a theoretical supposition one expects that a decline in local market competition stemming from joint ownership will result in higher advertising prices. An economist's emphasis on prices should not be construed to be overly myopic. Increased discretion over pricing behavior suggests other impacts which, from the social point of view, are even more undesirable. Imagine, for example, reduced incentives for effective new gathering or reporting.

Continuing research in this area is desirable for reasons which extend beyond the important yet narrow issue of cross-ownership. We believe that a variety of independent media competing in the local sub-market is desirable for reasons including the promotion of efficiency in advertising markets, as well as the safeguarding of a diverse flow of ideas, information and entertainment. Therefore, as a policy matter we do not equivocate in our opposition to joint ownership of television stations, cable systems, or newspapers in a given market.

D. Problems in Product Distribution

1. Book and Magazine Distribution

As discussed in section II-C, mass market paperback publishing, started in the late 30's, used the magazine distribution network already in existence. Functions of this system include the introduction of new books and magazines each month and automatic shipments to wholesalers and retailers. Problems in product distribution that developed apply to both paperbacks and magazines.

a. National Distributors

Mass market publishers and their distributors are closely linked through exclusive distribution contracts, contracts requiring distribution of no "competing" line, or through ownership connections. These arrangements can be viewed from two perspectives: as barriers to entry of new publishers into the mass market or as mechanisms for dealing with uncertainty.

To the extent major magazine publishers link closely with their distributors in similar fashion, the analysis is the same.

Certainly research is needed to determine whether this integration has anticompetitive effects and whether such effects are the intent of the arrangements. On the other hand, research should also explore whether the arrangements are the results of a search for more efficient ways to organize.

b. Access to Wholesalers

Wholesalers are regional monopolies. As such, they must be examined as possible barriers to access of a mass market publisher

or magazine publisher to retail markets. Policy analysis should focus on examination of the actual operating characteristics of independent distributors and on possible alternative channels of access to the retail market. The character of the bargaining process between publishers/national distributors and IDs needs careful examination and modeling effort.

E. Network 0-and-0's

Unfortunately our 0-and-0 policy recommendations must read more like a list of topics recommended for additional study than alternatives suggested for regulatory consideration.

To our knowledge the independent paper accompanying this document* represents the only economic study to have seriously investigated issues relating to network owned stations. As such the study was necessarily preliminary and was intended as an attempt to identify and define the relevant issues. To make policy recommendations at this time, on the basis of current knowledge, would be premature.

It was pointed out that the 0-and-0's make a contribution to network controlled national advertising large enough that it cannot be ignored, but not so large as to warrant a confident statement that 0-and-0's contribute significantly to the network's ability to set national TV advertising prices. No conclusions on this issue are offered here and the desirability of additional information should be weighed against the cost of the necessary research and the high probability that such research will not yield conclusive evidence.

The study cited concentrated on the programming decisions of network owned stations. It was suggested that the networks, because they can control the program choice of their 0-and-0 stations, may be able to reduce the potential revenues of programs in the syndication

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*Wildman, S., "Vertical Integration in Broadcasting: A Study of Network Owned-and-Operated TV Stations" prepared for the FTC Media Symposium, December 14, 15, 1978, Washington, D.C.

market as well as the syndicated potential of network programs. The diminished allure of the syndication market would enable the networks to correspondingly reduce their payments to the suppliers of network programs.

It is the reduction in program earnings which is a matter for concern. If, as a result of diminished profit potential, the flow of talent into the program supply industry is decreased, the quality of both syndicated and network programming could be adversely affected. Additional investigation would be required to establish the existence of this effect.

It was also suggested that due to the existence of 0-and-0's, networks may be able to reduce their payments made to broadcasters for the clearance of network programs. We feel this question is deserving of little attention since network affiliates, as a group, are already extremely profitable by the norms of most other industries.

The economic theory of vertical integration, applied to television broadcasting, predicts that network owned stations will broadcast more network programming than unowned stations with similar affiliation. An indirect test found support for this hypothesis.

The policy implications of the vertical integration hypothesis are ambiguous. As far as viewer welfare is concerned, an argument could be made that the vertically integrated 0-and-0 stations provide viewer preferred programming. However, it also follows that if the hypothesis is correct, the demand for syndicated programming is reduced, with the potential for the consequences described above. Again, only additional study can be recommended.

Several implications, not all of them negative, of network station ownership have been indentified and discussed. In each case the magnitude of the hypothesized effect is unknown and the tentative nature of our conclusions must be emphasized. Should 0-and-0 behavior become a matter of regulatory concern, responsible policy making would necessitate further research.